

ASSESSING THE GROUP
INSURANCE COMPANY MARKET

INPUT

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ASSESSING THE GROUP INSURANCE

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ASSESSING THE GROUP
INSURANCE COMPANY MARKET

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I MANAGEMENT SUMMARY

I MANAGEMENT SUMMARY

- INPUT was requested by Insurance Systems of America (ISA) to conduct a study that would identify the potential market for processing services and software in companies writing group life or health insurance.
 - The focus of the study was largely on commercial insurers, with 84 being interviewed (about 30% of the potential market). Six Blue Cross/Shield companies were also interviewed to serve as a comparison. The main conclusions here apply to commercial companies, however.
- There are fewer than 300 commercial companies or groups writing group life or group health insurance, as shown in Exhibit I-1.
 - The potential market for suppliers of service is focused on the companies between \$5 and \$600 million. There are 209 such companies.
- The group insurance market is a reasonably buoyant one with two-thirds of companies planning further expansion, as shown in Exhibit I-2.
- Most current software has been developed in-house, as shown in Exhibit I-3.
 - Vendor software is used by about one-quarter of companies, as shown in Exhibit I-4.
 - Most automation is still batch oriented, as shown in Exhibit I-5.

EXHIBIT I-1

GROUP INSURANCE WRITERS: OPERATING UNITS

GROUP INSURANCE ANNUAL PREMIUM (\$ millions)	INDEPENDENT COMPANIES		GROUPS		TOTAL	
	Number	Percent	Number	Percent	Number	Percent
\$ 2 - 4.9	37	31%	23	15%	60	22%
5 - 9.9	24	20	23	15	47	17
10 - 24.9	25	21	38	24	63	23
25 - 49.9	13	11	21	13	34	12
50 - 99.9	12	10	20	12	32	11
100 and Over	9	7	34	21	43	15
TOTAL	120	100%	159	100%	279	100%

EXHIBIT I-2

COMPANIES' FUTURE PLANS FOR GROUP INSURANCE

		COMPANIES PLANNING EXPANSION		
		YES	NO	TOTAL
COMPANIES PLANNING CONTRACTION	YES	29%	6%	35%
	NO	40%	25%	65%
	TOTAL	69%	31%	100%

EXHIBIT I-3

PERCENT OF GROUP INSURANCE SOFTWARE DEVELOPED IN-HOUSE, BY COMPANY SIZE

COMPANY SIZE* (Group Premiums, \$ millions)	PERCENT OF GROUP SOFTWARE DEVELOPED IN-HOUSE
\$ 0 - 9.9	60%
10 - 24.9	82
25 - 49.9	75
50 - 99.9	80
100+	93
Overall	78%

* Measured by Insurance Group

EXHIBIT 1-4

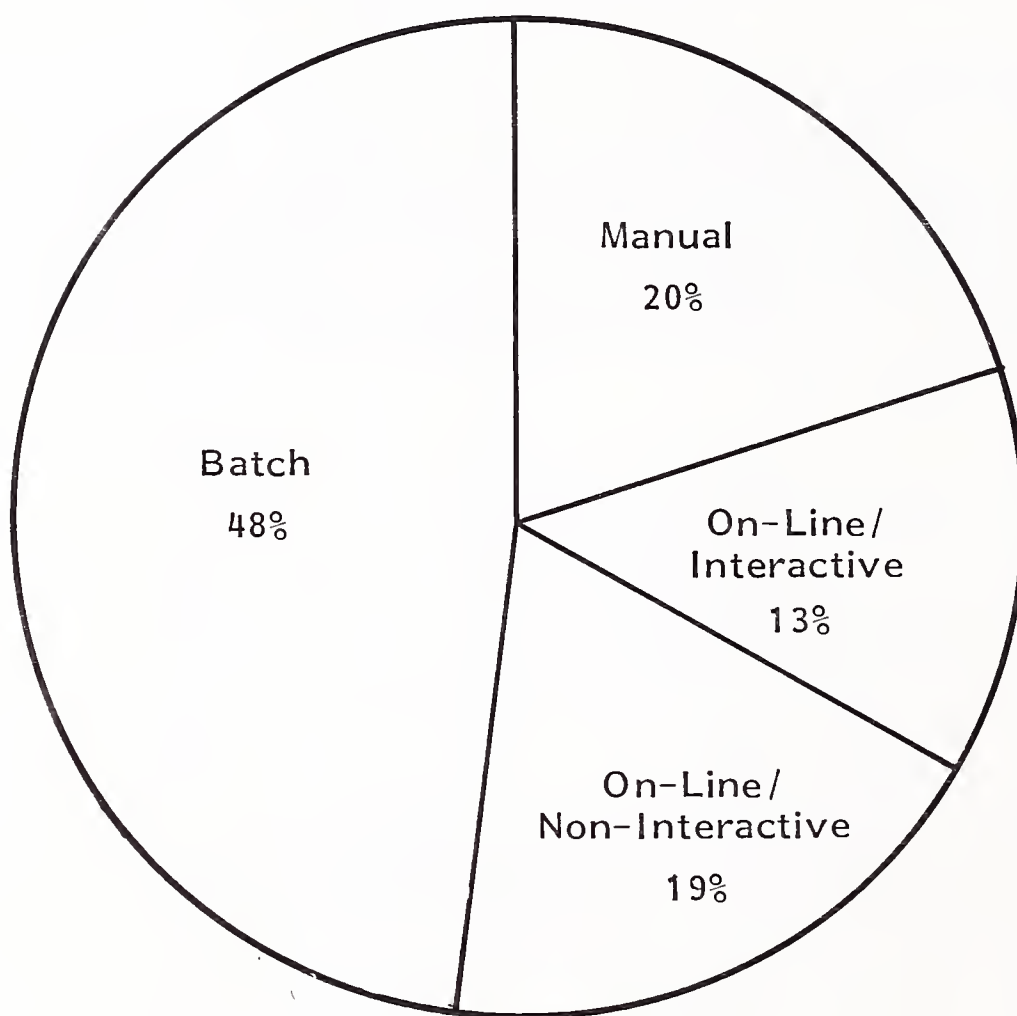
SOURCES OF GROUP INSURANCE AUTOMATION
(All Functions, All Companies)

SOURCE	PERCENT OF COMPANIES
In-House	71%
Vendor Software	25%
Affiliated Company	8%
Service Bureau	3%

NOTE: Totals over 100% because some companies use more than one source

EXHIBIT 1-5

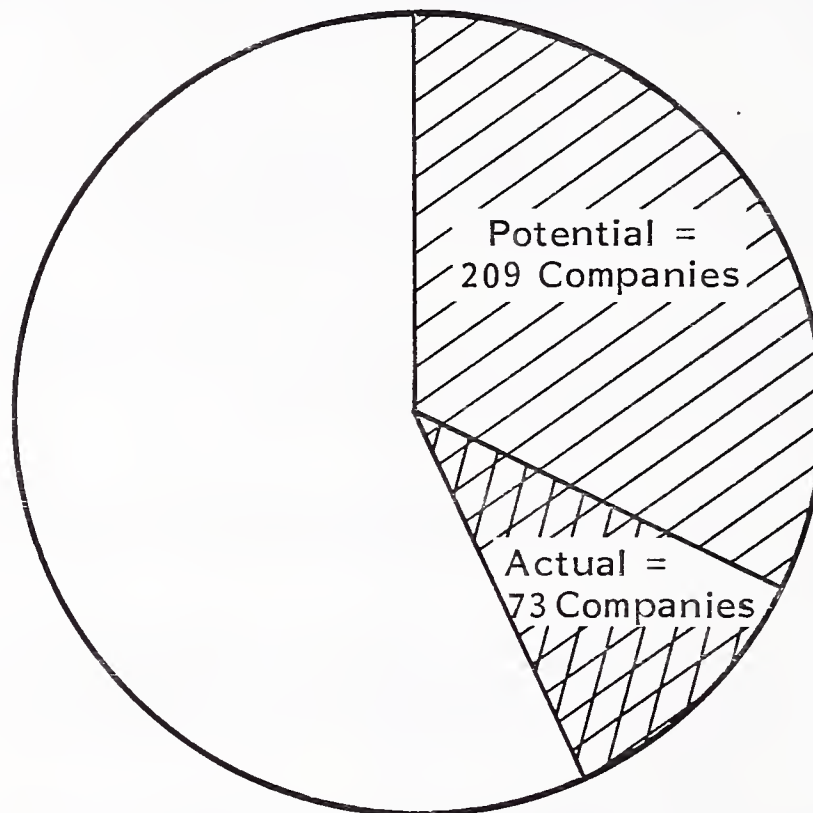
TYPE OF GROUP INSURANCE AUTOMATION
(All Functions, All Companies)



- Companies are, on the whole, satisfied with their present means of automation: about one-quarter of respondents indicated low or medium-low satisfaction.
- Even though largely satisfied, 70% of companies planned extensive future automation.
 - About 30% are planning complete system replacements, with new claims systems accounting for another 20%.
- INPUT expects 35% of companies (i.e., about 73 companies) to use vendor-supplied software, as shown in Exhibit I-6.
 - The companies using processing services will be negligible.
 - This low level of expected usage is confirmed by the largely negative attitudes respondents had vis-a-vis processing services.
- INPUT believes that the features and design of a software product will be critical to acceptance and profitability, as shown in Chapter VII, Conclusion.

EXHIBIT I-6

GROUP INSURANCE SOFTWARE MARKET



Universe = 649 Companies

NUMBER OF COMPANIES	COMPANY SIZE
12	\$100 - 600 Million
11	\$ 50 - 99.9 Million
12	\$ 25 - 49.9 Million
22	\$ 10 - 24.9 Million
16	\$ 5 - 9.9 Million
73	Total

II THE INSURANCE COMPANY UNIVERSE

II THE INSURANCE COMPANY UNIVERSE

- Before analyzing the market for particular group insurance products and services, it is necessary to identify and estimate the size of the universe of companies that are involved in writing group life and health insurance.
- For analytic purposes, the group life and group health business are considered together. This is done for two reasons:
 - Except in the very largest companies, both life and health insurance are viewed as belonging together administratively, operationally, and conceptually. INPUT's interviews indicate that this is a result of common marketing methods and customers.
 - From a data processing standpoint, there was also a high degree of uniformity of current systems and, equally important, future systems.
 - A partial exception is that large-scale claims systems are oriented toward group health.
 - An obvious exception is Blue Cross/Shield companies which do not write group life (with trivial exceptions).
- There are 1,304 significant commercial insurance companies in the life/health market, excluding shells and Arizona companies.

- These companies are divided evenly into independent companies (655) and companies that are part of a group (649).
- Group life and health business makes up almost 40% of total business, as shown in Exhibit II-1.
 - Companies that are part of insurance groups account for the bulk of both group and individual business. Because of this it is important to understand the impact and positioning of insurance group members on the group life and health business.
- There are 370 insurance groups that contain at least one life/health company.
 - There are 649 companies in groups, or an average of 1.75 companies per group.
 - However, there are 217 groups which contain only one significant life/health company. These are mainly P&C groups, or groups with only one significant company, but can also be finance companies, holding companies, or conglomerates.
- Before analyzing the 370 insurance groups, it is necessary to exclude those that do not engage in a sizable amount of group business. For purposes of analysis, a floor of \$2 million in annual premiums is used as the smallest amount of business that would usually have any interest in obtaining outside data processing services or software.
- Using a \$2 million cutoff point, only 334 companies out of the total of 1,304 are candidates for further analysis.
 - Of these 334, 214 are members of an insurance group, as shown in Exhibit II-2. These companies belong to 159 groups.

EXHIBIT II-1

GROUP LIFE AND HEALTH BUSINESS OVERVIEW

TYPE OF COMMERCIAL COMPANY	GROUP PREMIUMS		TOTAL PREMIUMS	
	\$ billions	Percent	\$ billions	Percent
Independent	\$6.6	21%	\$21.9	28%
Group Member	24.2	79	57.4	72
TOTAL	\$30.8	100%	\$79.3	100%

EXHIBIT II-2

COMMERCIAL PROVIDERS OF GROUP INSURANCE

GROUP INSURANCE ANNUAL PREMIUMS	INDEPENDENTS	MEMBERS OF GROUPS		Total:	
	Number of Companies	Number of:			
		Companies	Groups	Companies	Units
Under \$2 Million	535	435	211	970	746
Over \$2 Million	120	214	159	334	279
TOTAL	655	649	370	1,304	1,025

- For analytic purposes, members of insurance groups can be divided into four categories, as shown in Exhibit II-3.
- Exhibit II-4 shows how the companies which are members of insurance groups are divided among the four categories.
 - Over 80% of the groups are in categories 1 or 2; i.e., they can be treated as if they were independent companies for most purposes.
- Exhibit II-5 looks at each of the nine groups in category 3a (multiple companies in the same zip code).
 - In all but two cases, a group consists of a large company with a much smaller satellite.
- A similar situation exists in category 3b (multiple companies in different zip codes), as shown in Exhibit II-6.
- The result is that of the 214 companies identified as being in a group (Exhibit II-2) only 40 companies in groups 3a and 3b are potentially in a situation where their independence can be questioned.
 - They are less than 20% of companies in insurance groups and a little over 5% of the 334 companies doing a sizable amount (i.e., over \$2 million) in group life and health.
- Because of the relatively small number of multiple focus companies, it would not affect most quantitative judgments if they were treated as independent entities or combined.
 - However, because multiple focus groups are generally made up of a larger and smaller company it is logical to treat them as a unit.

EXHIBIT II-3

INSURANCE GROUP MEMBERS: CATEGORIES AND DEFINITIONS

CATEGORY	DEFINITION
1	<ul style="list-style-type: none"> • Single member writing group insurance
2	<ul style="list-style-type: none"> • Multiple members writing group insurance, but only a single member doing sizable business, i.e., over \$2 million in premiums ("primary focus")
3	<ul style="list-style-type: none"> • More than one member of a group does sizable significant business ("multiple focus")
3a	<ul style="list-style-type: none"> - Companies are located in same zip code, i.e., are identical operationally
3b	<ul style="list-style-type: none"> - Companies are located in multiple zip codes and are usually quasi-independent operationally.

EXHIBIT II-4

GROUP CONSTITUENTS

GROUP INSURANCE ANNUAL PREMIUMS (\$ millions)	OPERATING UNITS				
	Single Company	Primary Focus	Multiple Focus		Total
			Same Zip	Different Zip	
\$2 - 4.9	14	9	0	0	23
5 - 9.9	15	8	0	0	23
10 - 24.0	21	13	1	3	38
25 - 49.9	8	9	2	2	21
50 - 99.9	5	7	2	6	20
100 and Over	5	15	4	10	34
TOTAL	68	61	9	21	159

EXHIBIT II-5

MULTIPLE FOCUS GROUPS: SAME ZIP CODE

PREMIUMS (\$ millions)				LARGE COMPANY (percent)
Company A	Company B	Company C	Total	
\$6	\$8	-	\$14	57%
6	25	-	31	81
12	37	-	49	76
16	24	\$32	72	44
23	74	-	97	76
16	104	-	120	87
16	529	-	545	97
20	2,094	-	2,114	99
130	2,370	-	2,500	95

EXHIBIT II-6

MULTIPLE FOCUS GROUPS: DIFFERENT ZIP CODES

PREMIUMS (\$ millions)					LARGE COMPANY (percent)
Company A	Company B	Company C	Company D	Total [†]	
\$5	\$6	-	-	\$11	55%
7	16	-	-	23	70
6	18	-	-	24	75
5	31	-	-	36	86
15	21	-	-	36	58
6+25*	22	-	-	53	53 (58)*
10	43	-	-	53	81
24	34	-	-	58	59
11	31	\$19	-	66	46
17	58	-	-	75	77
5	82	-	-	87	94
30	72	-	-	102	71
28+7*	8	8	\$49	106	46
30	172	-	-	202	85
138+148*	24	-	-	305	49 (92)*
24	34	300	-	358	84
11	557	-	-	568	98
5+653*	7	-	-	667	98
36	654	-	-	693	94
25+722*	12	-	-	759	95
80	2,305	-	-	2,385	97

* = In same zip code

[†] Total may be larger than constituents due to omission of very small companies

- In addition, the research that INPUT conducted indicated that in the key area to ISA, procurement of replacement EDP systems, the satellite company could not act independently.
- From an operating unit standpoint, then, there are 159 groups and 120 independent companies, as shown in Exhibit II-7.
 - Companies writing less than \$5 million in business make up 22% of all operating units and those writing more than \$100 million make up 15% of operating units.
- However, the picture is much different when looked at from a premium basis, as shown in Exhibit II-8.
 - The small companies fade into insignificance and the 15% of companies writing over \$100 million in premiums account for over \$4 out of every \$5 premium.
- Exhibit II-9 shows the 1980 group premiums written by the 43 large companies.
 - Note the steady progression until the \$600 million mark is met and the six "giants" who write more than \$1 billion.
- Based on the research performed for this study as well as prior work, INPUT does not believe that many of these large companies would be reasonable prospects for standardized insurance data processing services or software.
 - Consequently, the ten operating units with premiums greater than \$600 million were excluded from the potential market.
- This leaves the 269 entities shown in Exhibit II-10 which will serve as the "universe" for further analysis. (Note: for reasons of brevity and clarity the term "company" is used in this study's later text and exhibits; it should be understood to mean "independent companies and group operating units.")

EXHIBIT II-7

GROUP INSURANCE WRITERS: OPERATING UNITS

GROUP INSURANCE ANNUAL PREMIUM (\$ millions)	INDEPENDENT COMPANIES		GROUPS		TOTAL	
	Number	Percent	Number	Percent	Number	Percent
\$ 2 - 4.9	37	31%	23	15%	60	22%
5 - 9.9	24	20	23	15	47	17
10 - 24.9	25	21	38	24	63	23
25 - 49.9	13	11	21	13	34	12
50 - 99.9	12	10	20	12	32	11
100 and Over	9	7	34	21	43	15
TOTAL	120	100%	159	100%	279	100%

EXHIBIT II-8

GROUP INSURANCE WRITERS: PREMIUMS

1980 GROUP LIFE AND HEALTH PREMIUMS						
GROUP INSURANCE ANNUAL PREMIUM (\$ millions)	INDEPENDENT COMPANIES		GROUPS		TOTAL	
	\$ billions	Percent	\$ billions	Percent	\$ billions	Percent
\$ 2 - 4.9	\$0.111	2%	\$0.069	-	.180	1%
5 - 9.9	0.168	3	0.161	1%	.329	1
10 - 24.9	0.391	6	0.667	3	1.058	3
25 - 49.9	0.488	7	0.790	3	1.278	4
50 - 99.9	0.900	14	1,462	6	2.362	8
100 and Over	4,439	68	21,042	87	25.481	83
TOTAL (rounded)	\$6,500	100%	\$24,200	100%	\$30,700	100%

EXHIBIT II-9

LARGE COMPANIES/GROUPS

1980 GROUP LIFE AND HEALTH PREMIUMS (\$ millions)						
Company Size Ranges	\$100- 199	\$200- 299	\$300- 399	\$400- 599	\$600 700	\$800+
Size of Individual Company	\$102	\$202	\$302	\$483	\$667	\$1,409
	104	207	305	492	693	1,972
	106	212	323	527	759	2,114
	107	214	336	545	783	2,385
	111	245	343	568	-	2,500
	118	262	358	-	-	3,535
	120	278	361	-	-	-
	137	-	399	-	-	-
	142	-	-	-	-	-
	159	-	-	-	-	-
	160	-	-	-	-	-
	164	-	-	-	-	-
	171	-	-	-	-	-
Number of Units	13	7	8	5	4	6
Premiums (\$ billions)	\$1.7	\$1.6	\$2.7	\$2.6	\$2.9	\$13.9

EXHIBIT II-10

ANALYTIC GROUPINGS

GROUP INSURANCE ANNUAL PREMIUMS (\$ millions)	NUMBER OF COMPANIES*	PERCENT	DOLLAR (\$ billion)	AMOUNT PERCENT
\$ 2 - 9.9	107	40%	\$ 0.509	4%
10 - 24.9	63	23	1,058	8
25 - 49.9	34	13	1,278	9
50 - 99.9	32	12	2,362	17
100 - 599.0	33	12	8,600	62
TOTAL	269	100%	\$13,807	100%

* Operating Units, as defined in the text

III STUDY METHODOLOGY

III STUDY METHODOLOGY

- INPUT interviewed 90 commercial companies involved with group life or health insurance in May 1982, as shown in Exhibit III-1.
 - Over 40% of commercial companies writing more than \$10 million annually were interviewed.
 - Six Blue Cross/Shield companies were also interviewed. This sample is generally too small to be used in quantitative exhibits; however, observations will be made throughout this report in which Blue Cross/Shield data appear significantly different.
 - The companies interviewed are listed in Exhibit III-2.
- Fifteen companies were interviewed on-site and the remainder of the interviews were conducted by telephone.
 - ISA was not identified as the client, nor was the exact purpose of the study specified.
 - Respondents were promised anonymity and a summary of the resulting report. (Both are standard INPUT procedures.)
- One purpose of the interview process was to obtain both a user and data processing perspective since, among other reasons, one hypothesis to be tested

EXHIBIT III-1

GROUP INSURANCE WRITERS INTERVIEWED

GROUP INSURANCE ANNUAL PREMIUM (\$ millions)	COMPANIES		
	TOTAL UNIVERSE	INTERVIEWED	
		Number	Percent
\$ 2 - 9.9	107	11	10%
10 - 24.9	63	22	35
25 - 49.9	34	17	50
50 - 99.9	32	17	53
100 and Over	43	17	40
Subtotal	279	84	30%
Blue Cross	-	6	-
TOTAL	279	90	30%

EXHIBIT III-2

COMPANIES INTERVIEWED

Allstate Insurance	Colorado Western States
Amalgamated Life and Health	Columbus Mutual Life*
American Bankers Life Assurance Of Florida	Combined Insurance*
American International Life Association	Connecticut General
American National Insurance	Consumers United Group
Bankers Life Insurance	Continental General
Bankers National Life*	Continental Life
Benefit Trust	Continental Life and Accident
Blue Cross of Greater Philadelphia	Country Life Insurance
Blue Cross/Blue Shield of Central New York	Credit Life*
Blue Cross/Blue Shield of Mississippi	Durham Life
Blue Cross/Blue Shield of Rochester	Eagle Life
Blue Cross/Blue Shield of Texas	Educator's Mutual
Blue Cross of California	Employer's Life of Wausau
Businessmen's Assurance Company Of America	Farmers New World Life
CNA*	Farmland Life Insurance
CUNA*	Farwest America Assurance Company
California Farm Life	Federated Life Insurance
California Life Insurance	First Colony Life
Central Reserve Life of New Hampshire	First Farwest Life
Coastal States*	General American Life
Colorado Farm Life	Guarantee Mutual Life
	Hartford Insurance Group
	Home Beneficial Life

* On Site Interview

(Continued)

EXHIBIT III-2 (CONT.)

COMPANIES INTERVIEWED

Home Insurance*	New York Life Insurance*
Home Security	North Carolina Mutual
Horace Mann	North Western National Life
IDS Life	Pacific Mutual
Independent Life and Accident	Penn Mutual
John Alden Life	Pilot Life
John Hancock	Rural Security
Lafayette Life	Safeco
Lamar Life	Security Benefit
League Insurance*	Security Life and Accident
Liberty National Insurance	Standard Insurance
Life Insurance Company of Georgia*	State Farm Insurance
Life Insurance Company of North America	Time Insurance
Life Investors	Transamerica Occidental*
Lincoln American Life	Transport Life
Lincoln Income Life	Union Central Life
MacCabees Mutual Insurance*	Union Fidelity
Michigan Life*	Union Mutual
Mutual Benefit	U.S. Life*
Mutual Security Life	United Benefit
Mutual Service	Wisconsin Employer's
National Farmers Union Insurance	

* On-Site Interview

was whether user and EDP management views are a marketing segmenting factor.

- To this end, somewhat different questionnaires were used, depending on whether a respondent was replying from a user or EDP perspective.
 - . The questionnaires were reviewed with ISA before being used. Copies of the questionnaires are in Appendix A and B.
- o Respondents interviewed ranged in title from Project Manager to Executive Vice President. The typical respondent was director level or equivalent.
 - The typical respondent was well informed and had opinions on most issues.
 - Most respondents contacted were interested in taking part in the study. (Since the bulk of interviewing took place during the IASA convention, in some cases potential respondents could not be reached.)
 - In smaller companies, a single respondent could often answer for the entire group insurance operation, either because the respondent was in charge of all aspects of group insurance operations or because the insurance and EDP operations had high knowledge of and confidence in each other.
 - In some larger companies, where the insurance and EDP components were both large, mature bureaucracies, there was a single group insurance systems manager as a "third force."
 - In many companies, especially medium-sized companies, separate interviews were conducted with EDP and user management.
- o The completed interviews were tabulated and analyzed by INPUT.

- INPUT also reviewed and analyzed computer reports on insurance companies prepared by ISA from tapes supplied by A.M. Best & Co.
 - Because of delays encountered in obtaining and processing these tapes, INPUT performed additional analysis on Best data manually.
- INPUT prepared and made a management presentation of this material to ISA staff in Atlanta on June 18, 1982.
 - This report contains the same quantitative data presented in Atlanta and reflects the discussion and comments made in the course of the management presentation.

IV GROUP INSURANCE OVERVIEW

IV GROUP INSURANCE OVERVIEW

- This chapter provides an overview of general group insurance issues and trends, as described by respondents, as well as the status of group insurance data processing.
 - Since the principal focus of the questionnaire - and study - was data processing, it was not always possible to go into detail in some of the general group insurance issues.

A. GENERAL GROUP INSURANCE ISSUES

- Over two-thirds of companies interviewed were planning to expand in one or more areas of group insurance. Only one-third were planning a contraction, as shown in Exhibit IV-1.
 - These numbers can be further analyzed in terms of:
 - . "Positive" companies; i.e., the 40% planning expansion and no contraction.
 - . "Negative" companies; i.e., the 6% planning to contract only.

EXHIBIT IV-1

COMPANIES' FUTURE PLANS FOR GROUP INSURANCE

		COMPANIES PLANNING EXPANSION		
		YES	NO	TOTAL
COMPANIES PLANNING CONTRACTION	YES	29% ("Mixed")	6% ("Negative")	35%
	NO	40% ("Positive")	25% ("Neutral")	65%
	TOTAL	69%	31%	100%

- "Mixed" companies; i.e., the 29% planning to both expand and contract.
 - "Neutral" companies; i.e., the 25% planning to keep their operations about the same.
- There were no significant differences in this movement dependent on company size.
- No one area of group insurance can be singled out as being in particular ascendancy or decline, as shown in Exhibit IV-2.
 - It is interesting to note, though, the withdrawal from "medical" and the expansion in dental, drugs, vision and ASO.
 - The "group" category includes a few companies trying to get out of group insurance altogether as well as a large number of companies planning to change their emphasis on the type of group they would target (large groups, smaller groups, etc.).
- About one-fifth of responding companies performed a significant amount of ASO/TPA business, as shown in Exhibit IV-3.
 - Due to a number of nonstandard and qualitative responses it was not possible to quantify these responses precisely. For most companies, "significant" should be approximately 10% of their business.
 - The smallest companies do the least ASO/TPA business, the largest companies the most.
- However, relationships are not straight line, by any means.
- Exhibit IV-4 looks at the issue from the other direction; i.e., the extent to which companies contract out any of their own processing. Under one-fifth

EXHIBIT IV-2

EXPANDING AND CONTRACTING AREAS OF BUSINESS

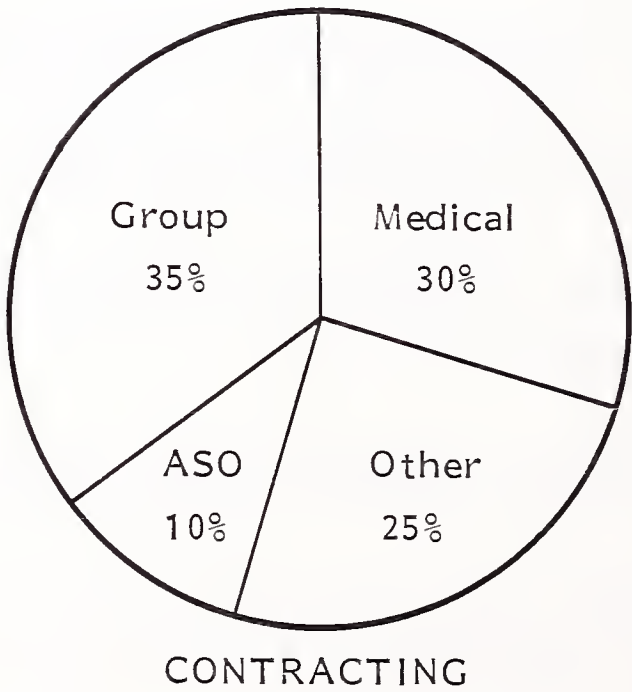
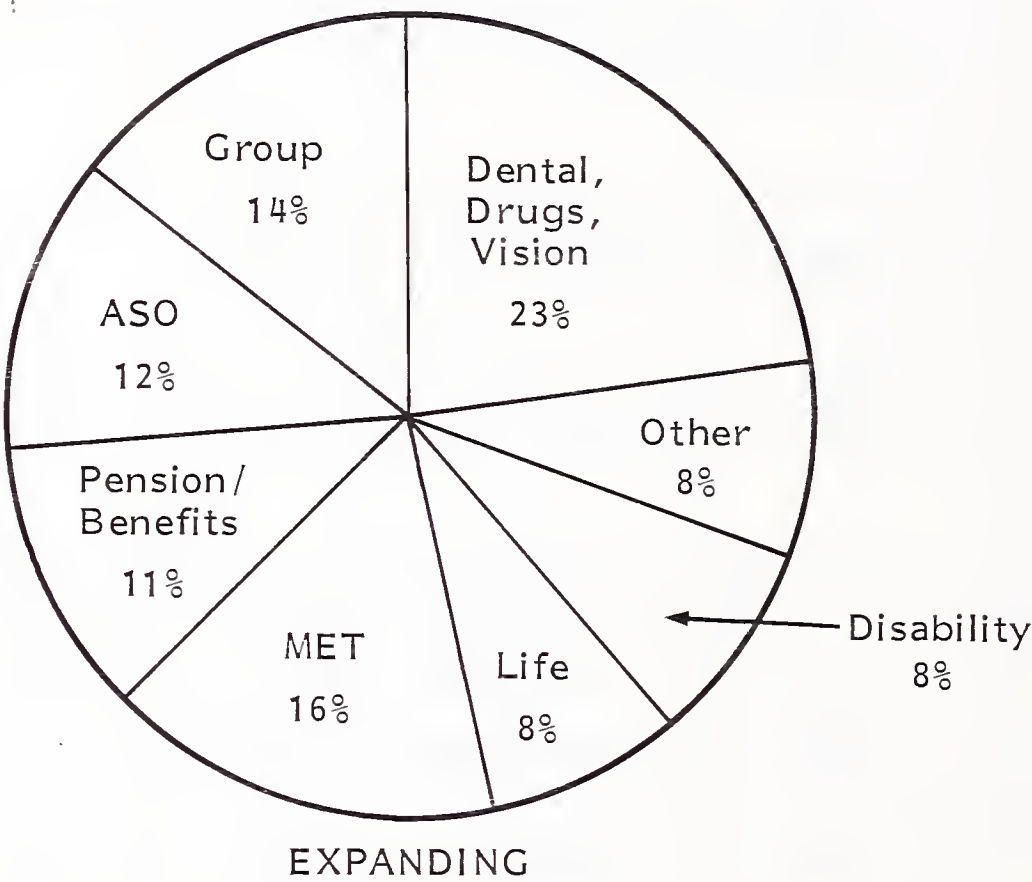


EXHIBIT IV-3

ASO/TPA BUSINESS

AMOUNT OF ASO/TPA BUSINESS	COMPANY SIZE* (\$ millions)					
	Under \$10 (percent)	\$10-24.9 (percent)	\$25-49.9 (percent)	\$50-99.9 (percent)	Under \$100 (percent)	All Companies (percent)
None	71%	19%	63%	12%	0	33%
Minor	29	44	25	63	64%	45
Significant	0	37	12	25	36	22
TOTAL	100%	100%	100%	100%	100%	100%

*Measured By Group Size

EXHIBIT IV-4

CONTRACTING OUT GROUP INSURANCE PROCESSING

TYPE OF CONTRACTING	COMPANY SIZE* (\$ millions)					
	Under \$10 (percent)	\$10-24.9 (percent)	\$25-49.9 (percent)	\$50-99.9 (percent)	Over \$100 (percent)	Total (percent)
Contract Out Some Processing	0	31%	33%	0	33%	19%
Considering Contracting Out	29%	6	0	15%	0	10

* Measured By Group Size

contract out some of their processing. Generally, the contracting out is for a particular line of business. Experience has been mixed.

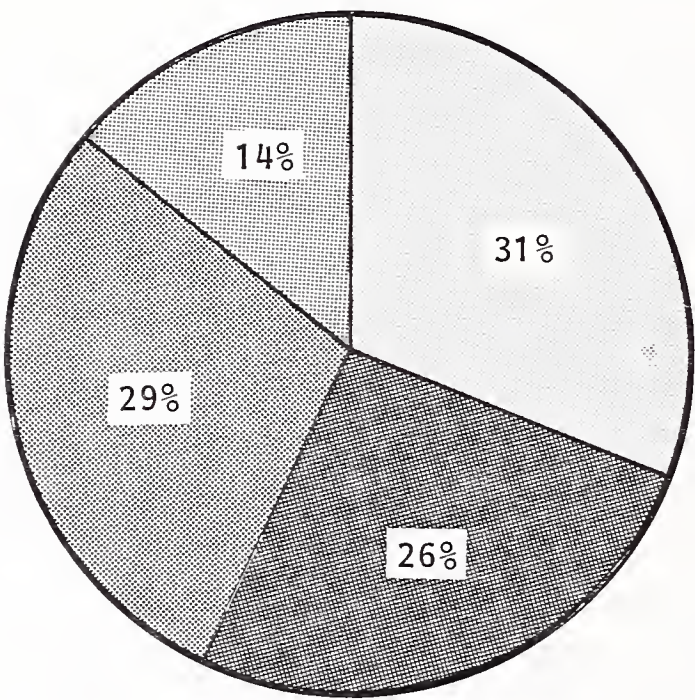
- Only an additional 10% have considered contracting out processing, where this is not being done now.
- About 10% of group business is MET - 13% health, 8% life, as shown in Exhibit IV-5, 26% of companies responding had 11% or more of their health business as MET and 14% had 11% or more of their life business as MET.
- There was little correlation with company size.
- Exhibit IV-6 summarizes respondents' answers to an open-ended question on what they saw as the most important problem facing the group insurance industry.
- Over 40% represent systems issues. INPUT believes that this percent may not be representative because:
 - Many respondents tended to be systems oriented, or, at the least, systems concerned, including users.
 - Most of the interview was on systems issues, thereby predisposing respondents to think of systems issues.
- There was little relationship between perceived problems and company size.

B. THE STATUS OF GROUP INSURANCE DATA PROCESSING

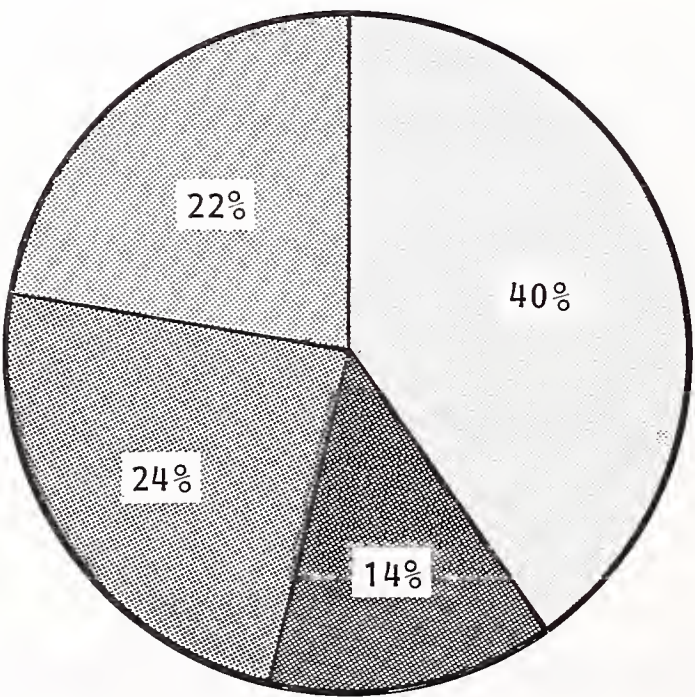
- On the average, companies report spending somewhat over 1% of group insurance premiums on data processing, as shown in Exhibit IV-7.

EXHIBIT IV-5

MET BUSINESS
(Percent of Companies)



GROUP HEALTH



GROUP LIFE

Amount of MET Business:





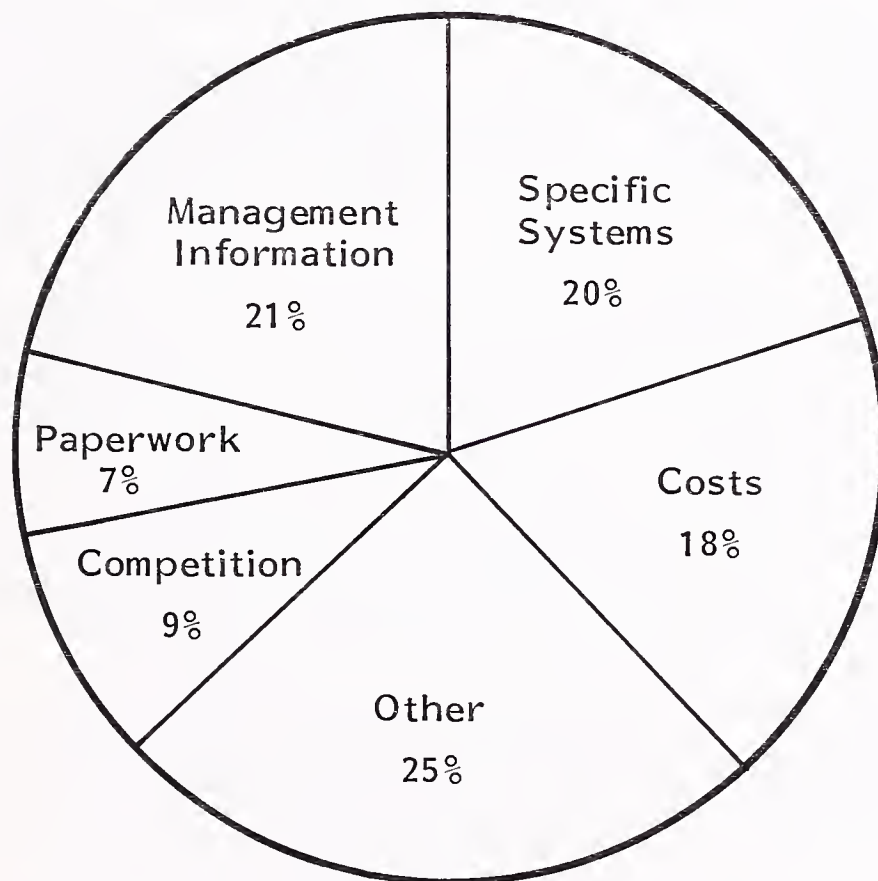
- | | |
|--|---|
|  = 0% |  = 3-10% |
|  = 1% |  = 11% |

EXHIBIT IV-6

GROUP INSURANCE PROBLEMS



NOTE: Responses to open-ended question; answers categorized

EXHIBIT IV-7

GROUP INSURANCE DATA PROCESSING EXPENDITURES

COMPANY SIZE (Group Premiums, \$ millions)	EXPENDITURES AS A PERCENT OF PREMIUMS	
	Range	Average
\$ 0 - 9.9	1.0-2.1%	1.4%
10 - 24.9	1.0-4.0	1.8
25 - 49.9	0.3-1.3	0.7
50 - 99.9	0.2-3.0	1.5
100 +	0.3-3.2	1.3
Overall	1.2-4.0	1.3

- The reported range is from 0.2% to 4%.
 - . In some cases this wide variation reflects real differences; e.g., between a virtually all manual operation and one that is undergoing significant enhancements.
- In other cases, this range represents a lack of knowledge, either by omitting expenditures or by including some non-group insurance costs in the group insurance category.
 - . This problem is not uncommon in insurance companies, even some fairly good-sized ones, where there is no formal budget for data processing.
- However, the average and range given here are in accord with ratios that INPUT has found in other insurance studies.
- Almost two-thirds of companies estimate that over 90% of their software was developed in-house, as shown in Exhibit IV-8.
- The average company has developed about 78% of its software in-house, with the smallest companies having developed the least and the largest companies the most, as shown in Exhibit IV-9.
- It is interesting that users believe, on average, that a somewhat higher percentage was developed in-house.
 - . This is almost certainly explained by vendor software packages that have received extensive modifications: EDP staff will be aware of this, but after a while user staff will be less aware.
- Users play a key role in initiating major group insurance data processing projects.

EXHIBIT IV-8

DISTRIBUTION OF IN-HOUSE SOFTWARE DEVELOPMENT

PROPORTION OF GROUP SOFTWARE DEVELOPED IN-HOUSE	PERCENT OF COMPANIES
90 - 100%	64%
50 - 89	19
10 - 49	10
0 - 9	7

EXHIBIT IV-9

PERCENT OF GROUP INSURANCE SOFTWARE DEVELOPED IN-HOUSE, BY COMPANY SIZE

COMPANY SIZE* (Group Premiums, \$ millions)	PERCENT OF GROUP SOFTWARE DEVELOPED IN-HOUSE
\$ 0 - 9.9	60%
10 - 24.9	82
25 - 49.9	75
50 - 99.9	80
100+	93
Overall	78%
EDP Estimate	71%
User Estimate	85%

* Measured By Insurance Group

- EDP management said that, on the average, user initiation occurred about 70% of the time, with this increasing slightly in the future, as shown in Exhibit IV-10.
- User views of their current role were slightly higher.
 - However, the general convergence of views on the importance of the users' role was quite high and, in INPUT's opinion, very important for a vendor sales effort.
- The group insurance world is an IBM one, with 30xx and 4300 hardware used by three-quarters of respondents, as shown in Exhibit IV-11. Operating systems mirrored hardware.
 - IMS/DL-1 is used by about 40% of companies, as shown in Exhibit IV-12. DBMS usage patterns are not expected to change appreciably.
- Larger companies have many more terminals installed now, as might be expected, as shown in Exhibit IV-13. However, the rate of increase is projected to be much higher in smaller companies.
- About half the companies have plans to use turnkey systems or personal computers, as shown in Exhibit IV-14.
 - It was clear from some of the respondents that they were inclined to merge these two categories. Generally, they were thinking more in terms of personal computer-based applications rather than classic minicomputer-based turnkey systems.
 - Company size was not a significant factor in responses.
- Larger companies were much more likely to be planning to use graphics than smaller companies.

EXHIBIT IV-10

USER INITIATIVES IN MAJOR DATA PROCESSING PROJECTS

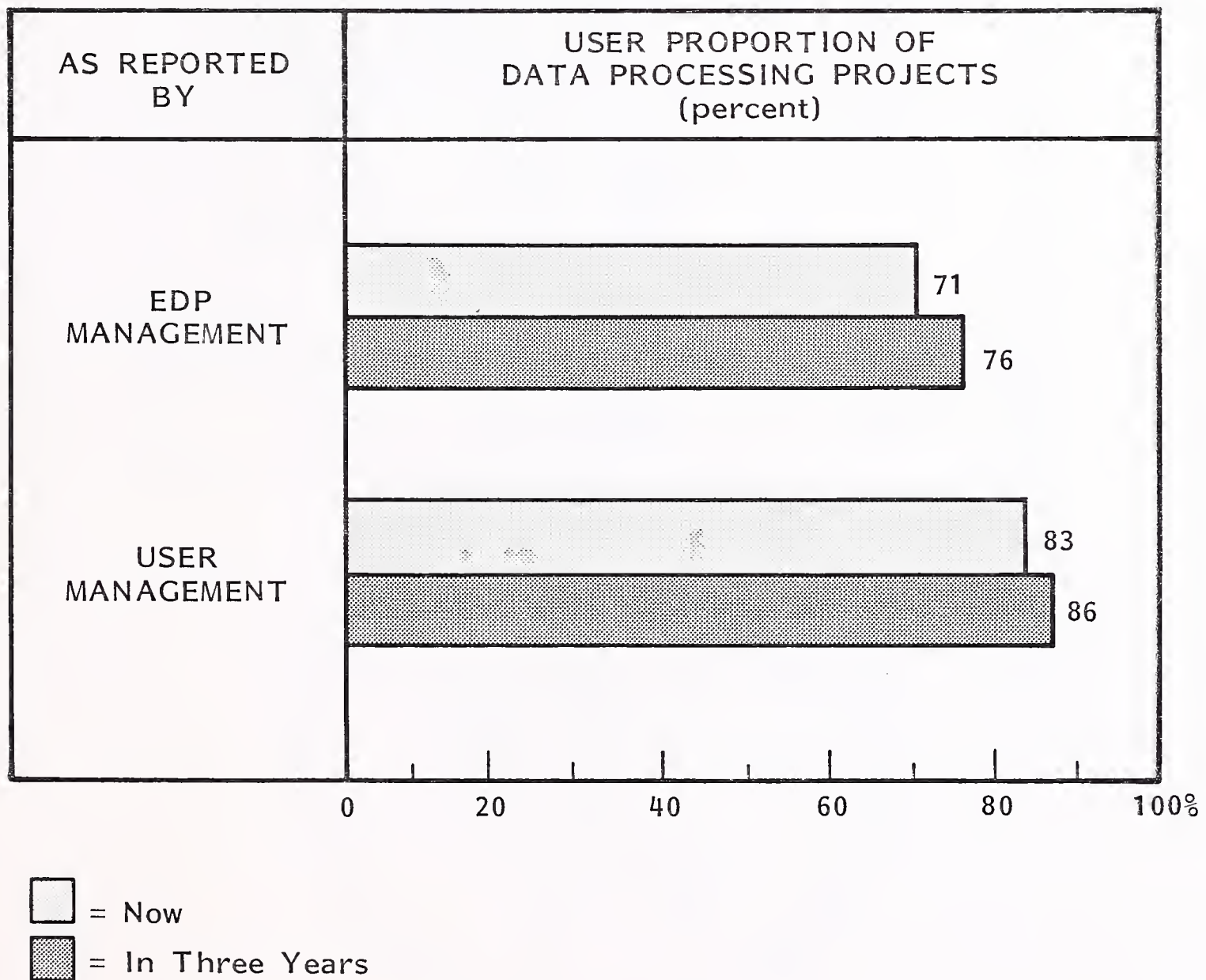
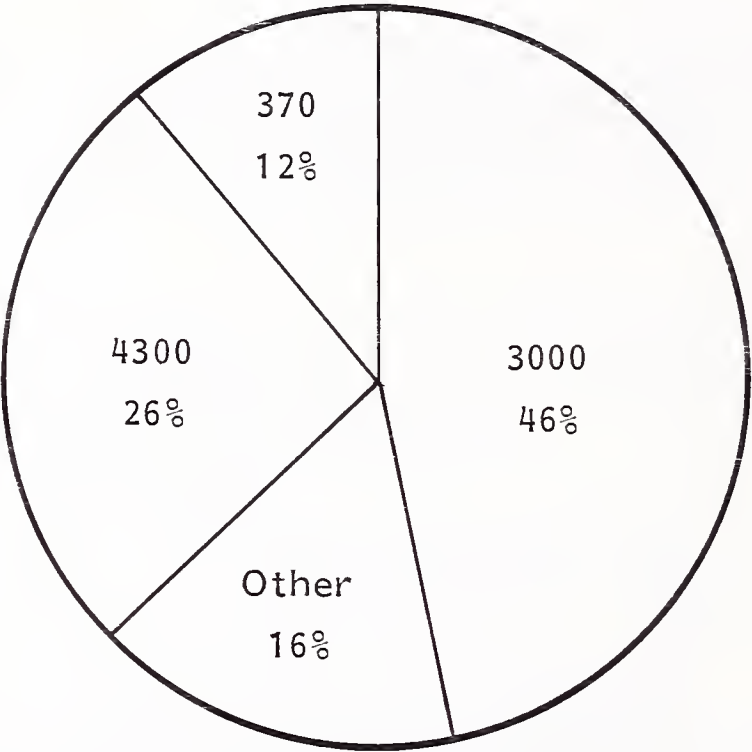
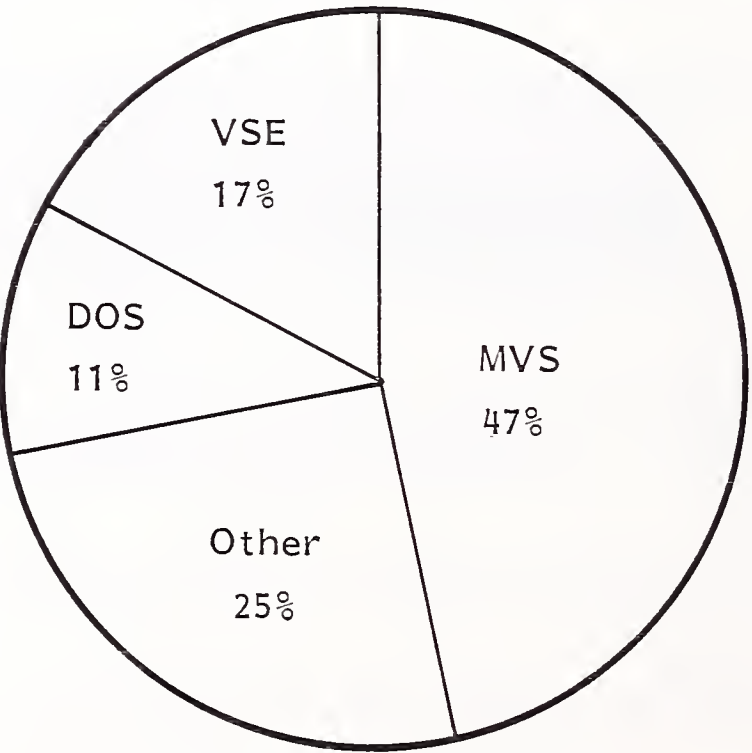


EXHIBIT IV-11

GROUP INSURANCE: HARDWARE AND SOFTWARE



HARDWARE



OPERATING SYSTEMS

EXHIBIT IV-12

DATA BASE MANAGEMENT SYSTEM USAGE

SYSTEM USED	1982 (percent)	1985 (percent)
None/Own	50%	42%
IMS/DL1	39	42
Other	11	16
TOTAL	100%	100%

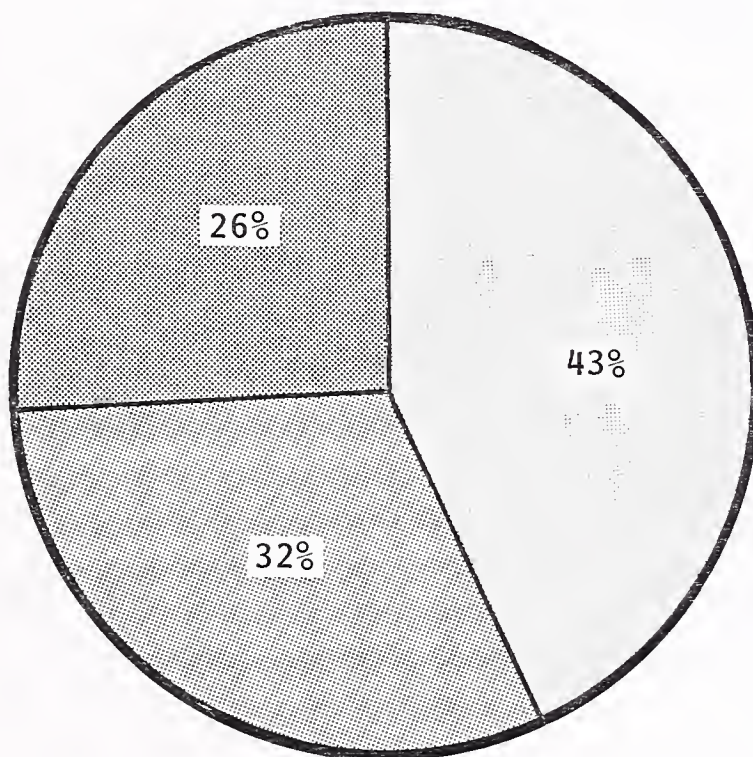
EXHIBIT IV-13

GROUP INSURANCE: TERMINAL USAGE

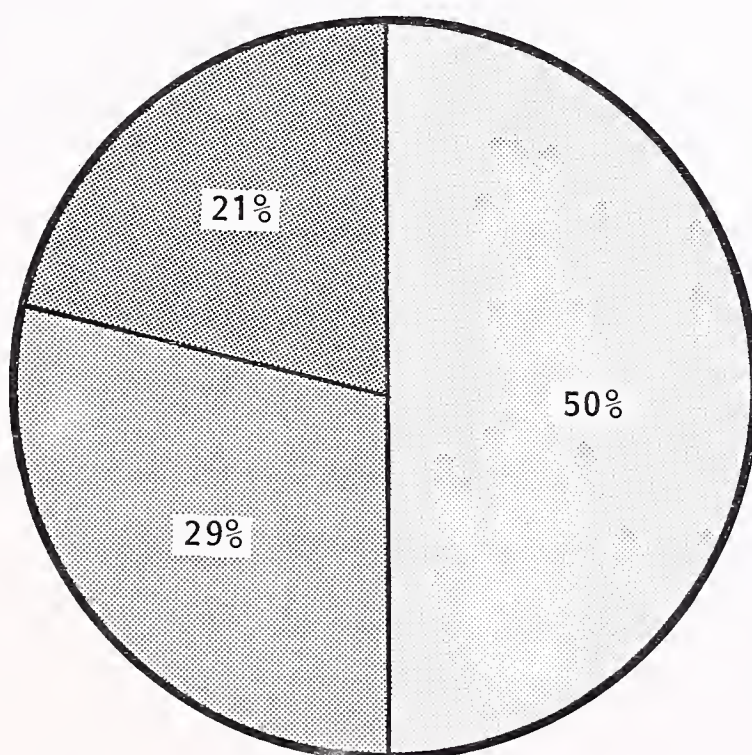
COMPANY SIZE (Group Premiums, \$ millions)	AVERAGE NUMBER OF TERMINALS	PERCENT INCREASE TO 1985
\$ 0 - 9.9	45	140%
10 - 24.9	80	72
25 - 49.9	87	74
50 - 99.9	170	36
100+	1,022	15

EXHIBIT IV-14

FUTURE USE OF TURNKEY SYSTEMS AND
PERSONAL COMPUTERS



Turnkey



Personal

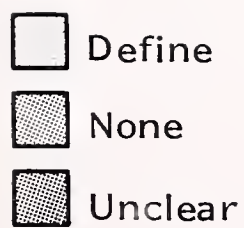
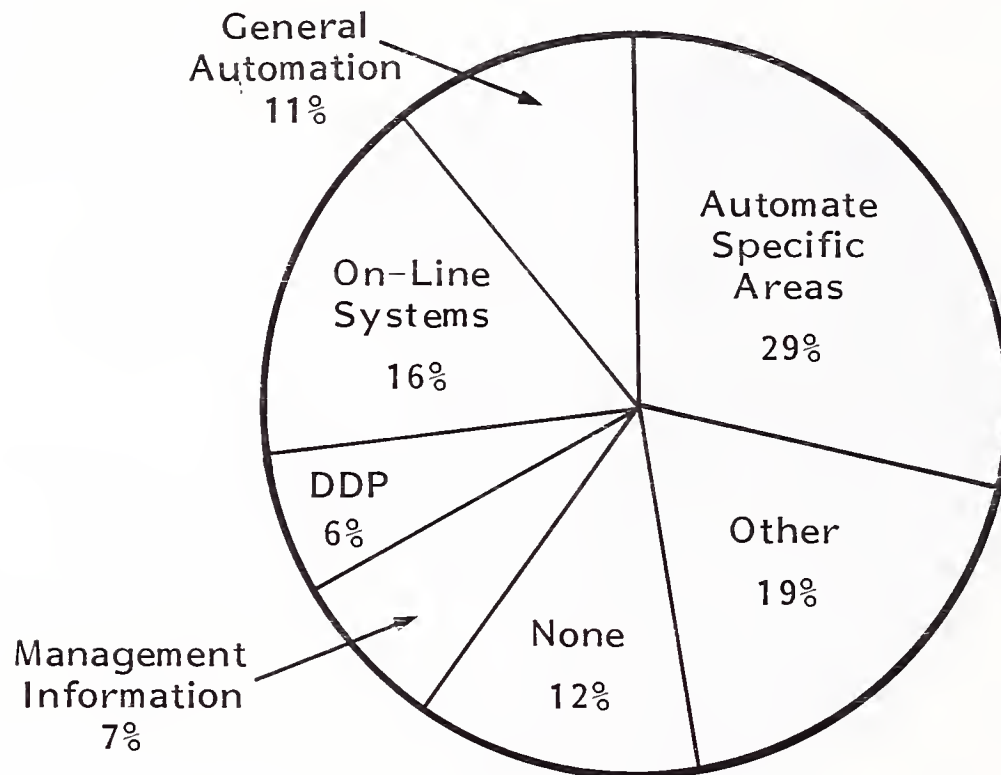
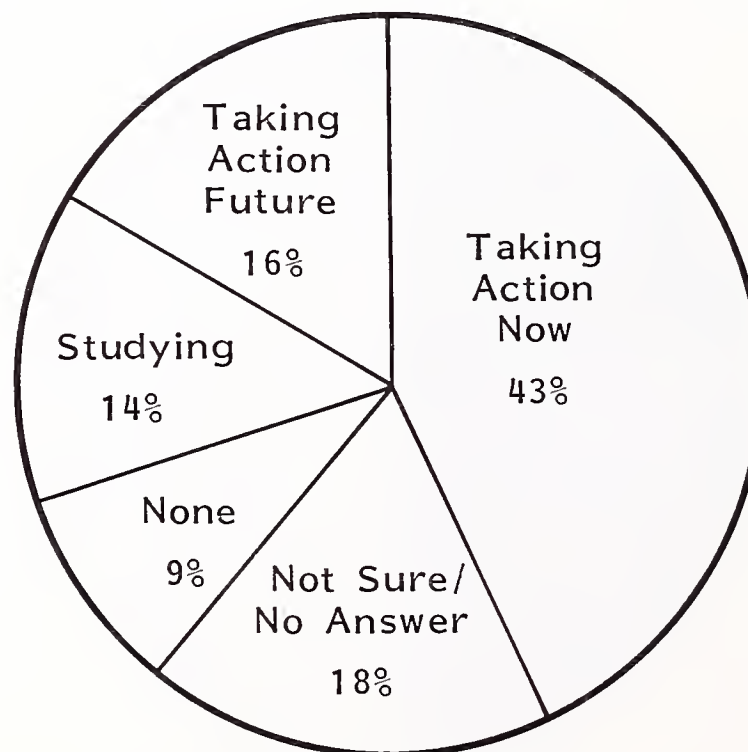


EXHIBIT IV-15

TRENDS IN GROUP INSURANCE
DATA PROCESSING AND THEIR EFFECTS



TRENDS



EFFECTS

- Most graphics uses mentioned were of the management reporting type.
- Over half of respondents saw the trends in group insurance data processing as involving more automation, either generally, in specific areas (accounting, claims) or in particular technical areas (on-line systems, DDP, management information), as shown in Exhibit IV-16.
- Well over half saw themselves taking action in these areas now or in the future.
 - To some extent, of course, the causes and effects between "trends" and "effects" may be reversed in some people's minds: what is now being done by a company is seen as a trend.
- The trends/actions in regard to increased automation become more explicable when viewed against the background of current automation: overall, two-thirds of functions are still manual or batch, as shown in Exhibit IV-17.
- Small companies are least automated and large companies are most automated, as shown in Exhibit IV-18. (The apparent anomaly of a relatively large number of interactive systems in the smallest companies is due to the concentration there of services supplied by outside processing services or affiliated companies.)
- When this data is "exploded" into the ten major application areas, the same picture remains, with some exceptions, as shown in Exhibit IV-19.
 - Underwriting is significantly less automated than any other area.
 - Claims processing is somewhat more automated.

- As discussed earlier, respondents estimated that the source of most automation is in-house-developed systems, as shown in Exhibit IV-19. This was confirmed by examining the source of automation for each company's major group insurance functions.
 - Exhibit IV-20 summarizes these findings.
 - Note that one-quarter of all functional areas use vendor software. Only 3% use a service bureau.
 - The smallest companies are the biggest users of outside services, as shown in Exhibit IV-21. Note their high use of service bureaus and their obtaining services from affiliated companies.
 - Blue Cross/Shield companies are more likely to use vendor processing.
 - An "explosion" of the data to individual applications functions shows a similar picture, as seen in Exhibit IV-22.
 - Note: where a function is manual it is excluded from these tables and is not counted as in-house automation.

EXHIBIT IV-16

FUTURE USE OF GRAPHICS

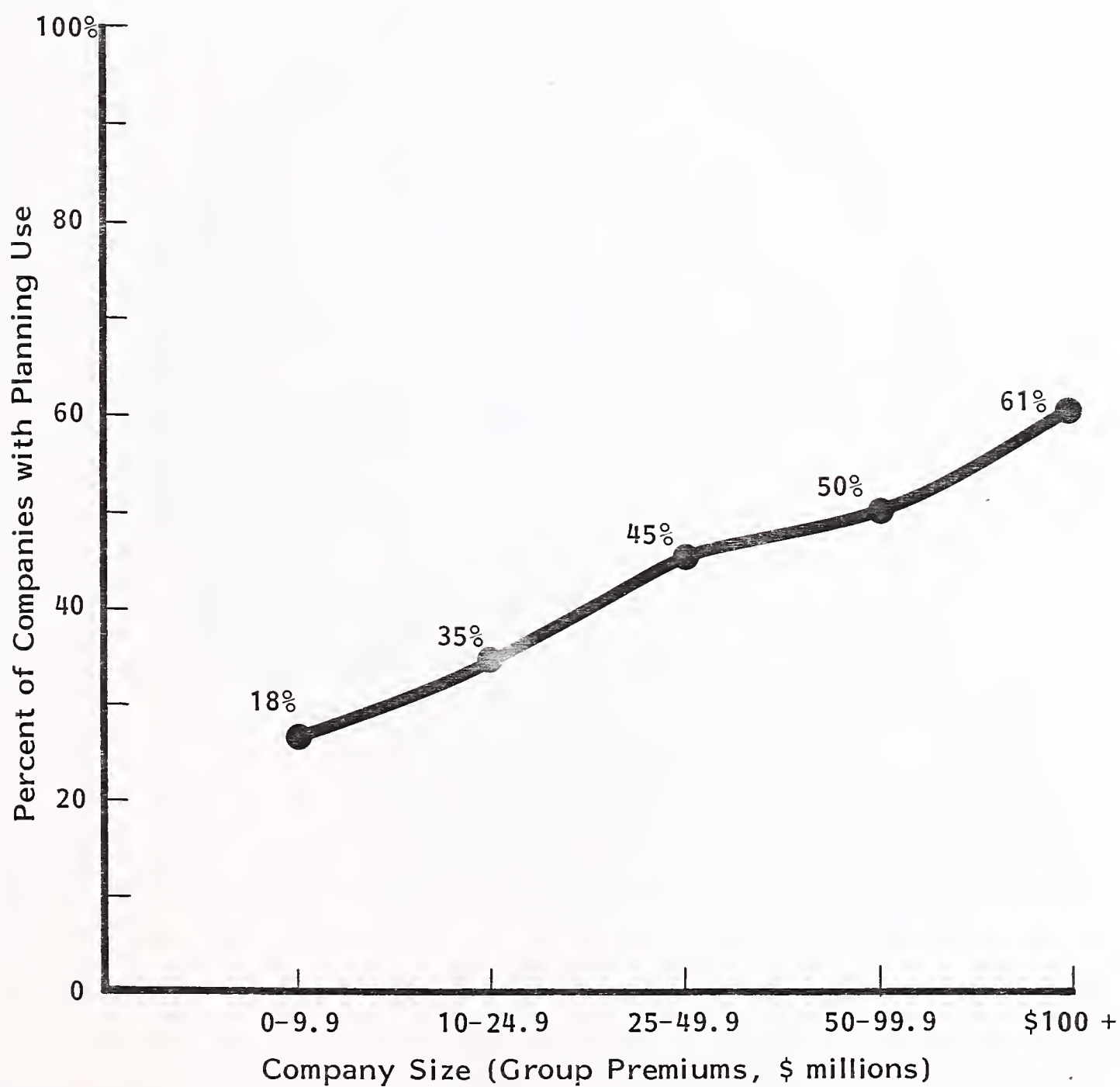


EXHIBIT IV-17

TYPE OF GROUP INSURANCE AUTOMATION
(All Functions, All Companies)

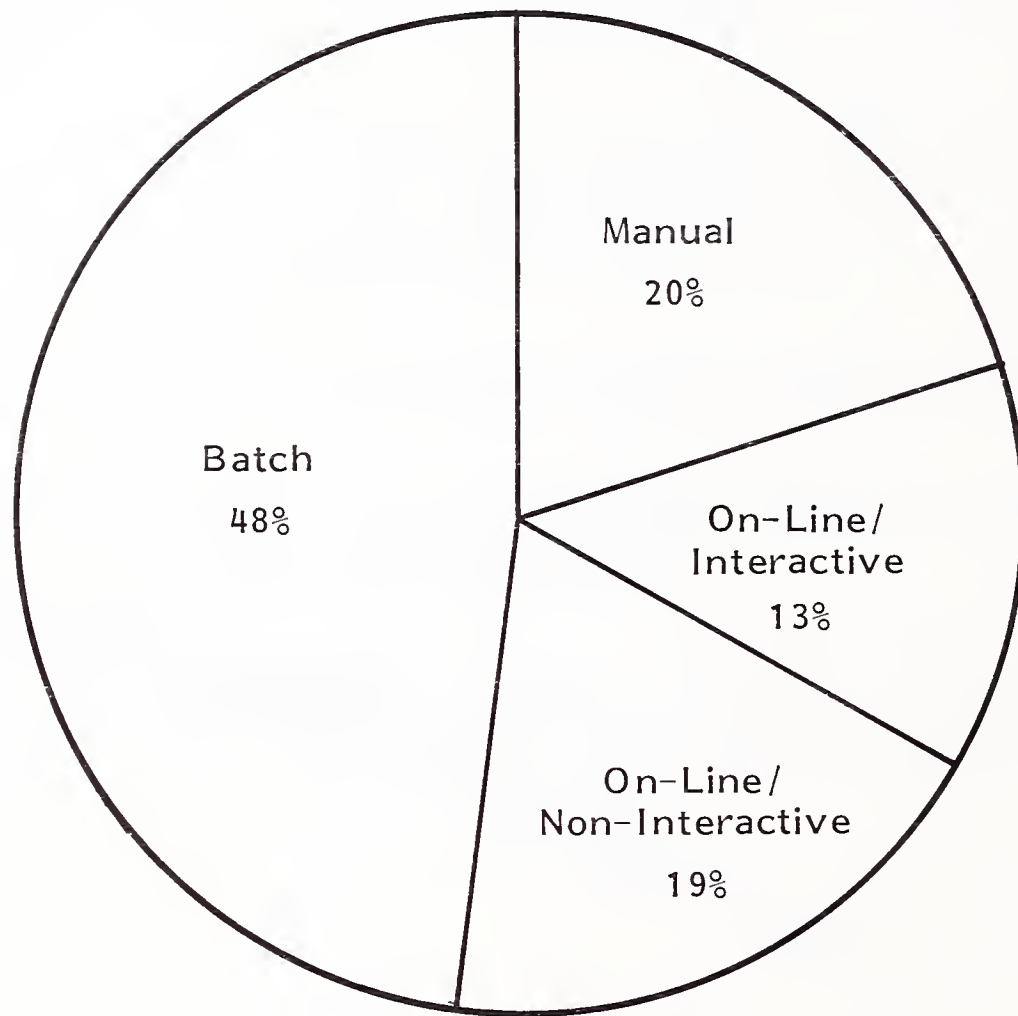


EXHIBIT IV-18

TYPE OF GROUP AUTOMATION, BY APPLICATION AND COMPANY SIZE (Annual Premiums, \$ millions)

TYPE OF AUTOMATION	COMPANY SIZE (\$ millions)					
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +	TOTAL
Manual	26%	30%	23%	12%	7%	20%
Batch	50	45	55	53	36	48
Non-Interactive	3	19	11	26	35	19
Interactive	21	6	11	9	22	13
Total	100%	100%	100%	100%	100%	100%

EXHIBIT IV-19
TYPE OF GROUP AUTOMATION,
BY APPLICATION AND COMPANY SIZE (Annual Premiums, \$ millions)

APPLICATION	COMPANY SIZE (\$ millions)						TOTAL
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +		
Accounting							
Manual	20%	23%	15%	10%	0	14%	
Batch	60	55	75	50	33%	55	
Non-Interactive	7	16	5	40	48	23	
Interactive	13	6	5	0	19	9	
Policy Maintenance							
Manual	25	23	18	13	5	17	
Batch	42	45	50	54	45	47	
Non-Interactive	8	19	18	25	25	19	
Interactive	25	13	14	8	25	17	
Eligibility							
Manual	36	35	27	10	5	23	
Batch	36	42	45	40	40	41	
Non-Interactive	0	19	9	30	35	19	
Interactive	27	13	18	20	20	20	

(Continued)

EXHIBIT IV-19 (Cont.)

TYPE OF GROUP AUTOMATION
BY APPLICATION AND COMPANY SIZE (Annual Premiums, \$ millions)

APPLICATION	COMPANY SIZE (\$ millions)						TOTAL
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +		
Claims History							
Manual	21%	39%	23%	5%	9%	19%	
Batch	57	29	55	45	27	43	
Non-Interactive	0	26	9	32	36	21	
Interactive	21	6	14	18	27	17	
Financial Reporting							
Manual	17	14	23	14	5	15	
Batch	67	69	59	59	47	60	
Non-Interactive	0	14	9	27	26	15	
Interactive	17	3	9	0	21	10	
Underwriting							
Manual	42	50	38	30	26	37	
Batch	42	30	43	50	26	38	
Non-Interactive	0	17	14	10	32	15	
Interactive	17	3	5	10	16	10	

(Continued)

EXHIBIT IV-19 (Cont.)

TYPE OF GROUP AUTOMATION

BY APPLICATION AND COMPANY SIZE (Annual Premiums, \$ millions)

APPLICATION	COMPANY SIZE (\$ millions)						TOTAL
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +		
Claims Processing							
Manual	38%	39%	23%	9%	10%		24%
Batch	23	29	41	57	19		34
Non-Interactive	0	22	18	26	52		24
Interactive	38	10	18	9	19		19
Premium Billing							
Manual	25	26	9	5	0		13
Batch	58	55	75	59	35		56
Non-Interactive	0	16	9	23	40		18
Interactive	17	3	5	14	25		13
Claims Disbursement							
Manual	8	26	24	14	5		15
Batch	58	45	52	45	38		48
Non-Interactive	17	26	14	32	33		24
Interactive	17	3	10	9	24		13

(Continued)

EXHIBIT IV-19 (Cont.)

TYPE OF GROUP AUTOMATION
BY APPLICATION AND COMPANY SIZE
(Annual Premiums, \$ millions)

APPLICATION	COMPANY SIZE (\$ millions)						TOTAL
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +		
Utility Reporting							
Manual	27%	29%	27%	7%	5%		19%
Batch	55	50	55	73	53		57
Non-Interactive	0	17	9	20	21		13
Interactive	18	4	9	0	21		10

EXHIBIT IV-20

SOURCES OF GROUP INSURANCE AUTOMATION
(All Functions, All Companies)

SOURCE	PERCENT OF COMPANIES
In-House	71%
Vendor Software	25%
Affiliated Company	8%
Service Bureau	3%

NOTE: Totals over 100% because some companies use more than one source

EXHIBIT IV-21

SOURCE OF GROUP AUTOMATION, BY APPLICATION AND COMPANY SIZE (Annual Premiums, \$ millions)

SOURCE OF AUTOMATION	COMPANY SIZE (\$ millions)					
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +	TOTAL
In-House	33%	86%	79%	76%	79%	71%
Vendor Software	37	16	22	21	33	25
Affiliated Company	19	10	1	12	1	8
Service Bureau	11	0	0	1	1	3

NOTE: Totals over 100% because some companies use more than one source.

EXHIBIT IV-22

SOURCE OF GROUP AUTOMATION,

BY APPLICATION AND COMPANY SIZE* (Annual Premiums, \$ millions)

SOURCE OF AUTOMATION	COMPANY SIZE (\$ millions)						TOTAL
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +		
Claims History							
In-House	45%	78%	71%	76%	74%		69%
Vendor Software	27	22	29	24	47		30
Affiliated Company	18	6	0	10	0		11
Processing	9	0	0	0	0		2
Financial Reporting							
In-House	33	96	76	79	94		76
Vendor Software	33	8	24	16	17		18
Affiliated Company	22	4	0	5	0		6
Processing Service	11	0	0	0	0		2
Underwriting							
In-House	14	93	85	79	100		74
Vendor Software	43	7	15	7	21		19
Affiliated Company	29	7	8	14	7		13
Processing Service	14	0	0	0	0		3

* Measured By Insurance Group

(Continued)

SOURCE OF GROUP AUTOMATION

BY APPLICATION AND COMPANY SIZE* (Annual Premiums, \$ millions)

SOURCE OF AUTOMATION	COMPANY SIZE (\$ millions)						TOTAL
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +		
Accounting							
In-House	67%	100%	82%	73%	100%		84%
Vendor Software	25	21	24	40	19		26
Affiliated Company	0	0	0	20	0		4
Processing Service	8	0	0	7	0		3
Policy Maintenance							
In-House	44	92	78	71	95		76
Vendor Software	33	13	22	14	16		20
Affiliated Company	22	4	0	9	0		7
Processing Service	11	0	0	0	0		2
Eligibility							
In-House	14	80	81	75	85		67
Vendor Software	43	20	19	25	35		28
Affiliated Company	29	5	0	10	0		7
Processing Service	14	0	0	0	0		3

* Measured By Insurance Group

(Continued)

EXHIBIT IV-22 (Cont.)

SOURCE OF GROUP AUTOMATION

BY APPLICATION AND COMPANY SIZE* (Annual Premiums, \$ millions)

SOURCE OF AUTOMATION	COMPANY SIZE (\$ millions)						TOTAL
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +		
Claims Processing							
In-House	25%	68%	71%	67%	29%		52%
Vendor	62	21	29	29	58		39
Affiliated Company	0	5	0	10	0		3
Service Bureau	13	0	0	0	0		3
Premium Billing							
In-House	22	87	78	76	65		66
Vendor	33	9	17	14	45		24
Affiliated Company	22	4	0	10	0		7
Service Bureau	11	0	0	0	0		2
Claims Disbursement							
In-House	36	83	75	89	65		70
Vendor	27	17	25	26	50		29
Affiliated Company	18	4	0	13	0		7
Service Bureau	9	0	0	0	0		2

* Measured By Insurance Group

(Continued)

EXHIBIT IV-22 (Cont.)

SOURCE OF GROUP AUTOMATION
BY APPLICATION AND COMPANY SIZE* (Annual Premiums, \$ millions)

SOURCE OF AUTOMATION	COMPANY SIZE (\$ millions)					
	\$0 - 9.9	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	\$100 +	TOTAL
Utility Reporting						
In-House	25%	82%	100%	79%	83%	74%
Vendor	38	18	13	14	17	20
Affiliated Company	25	6	0	14	0	9
Service Bureau	13	0	0	0	6	4

* Measured By Insurance Group

V ATTITUDES TOWARD SOURCES
OF AUTOMATION

V ATTITUDES TOWARD SOURCES OF AUTOMATION

- INPUT has found in other studies that attitudes can be a very important factor for forecasting future use of computer-based systems as well as explaining the motivation behind planned use of alternative sources of data processing services.
- This chapter will examine:
 - Current satisfaction with group insurance applications.
 - General attitudes toward alternative sources of group automation.
 - Ratings of specific criteria for in-house development, vendor-supplied software, and processing services.

A. CURRENT SATISFACTION

- Satisfaction with current applications is, on the whole, quite high. When respondents were asked to give their satisfaction for particular application areas, over half gave their satisfaction as being high or medium-high, as shown in Exhibit V-1.

EXHIBIT V-1

SATISFACTION WITH GROUP INSURANCE APPLICATIONS

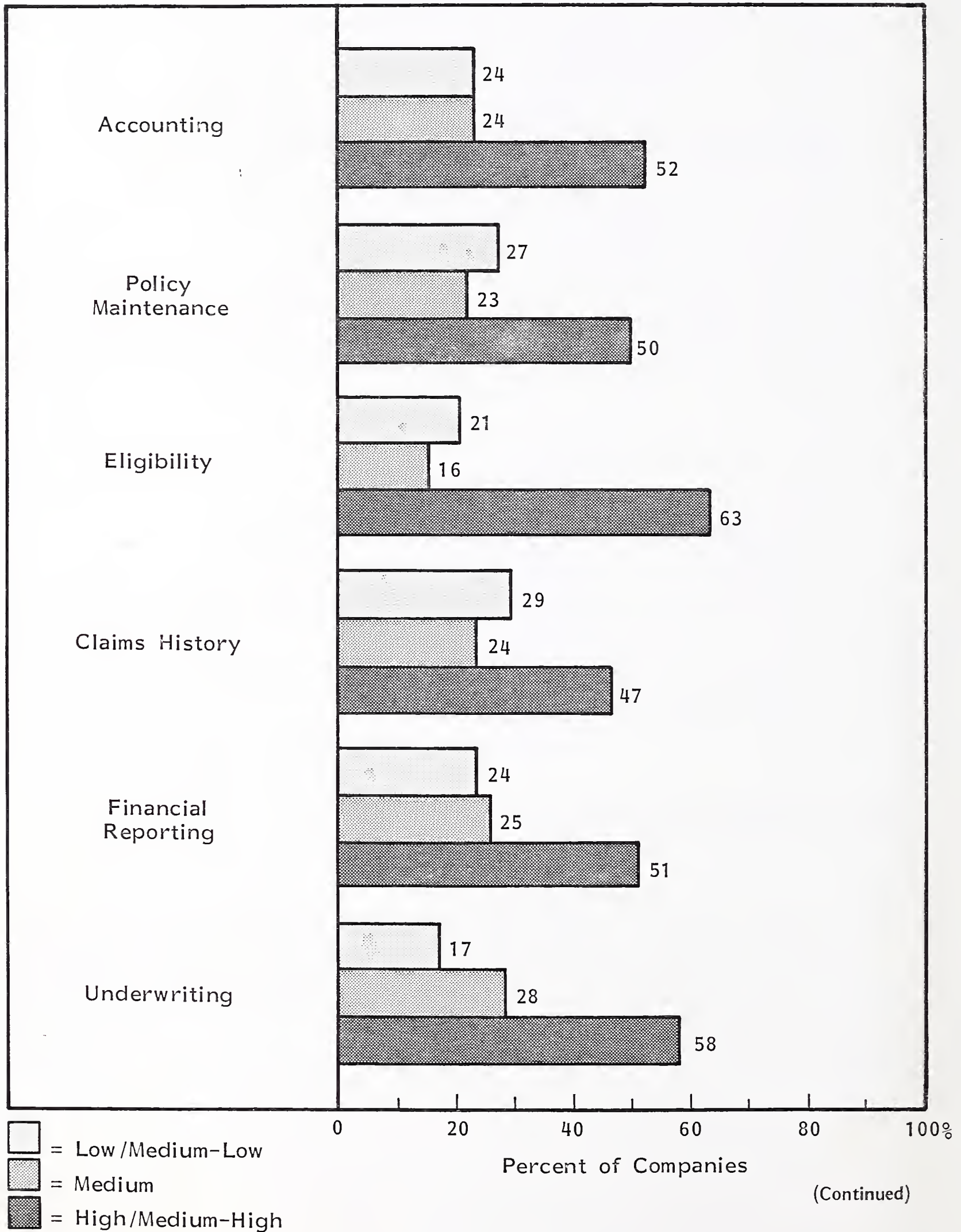
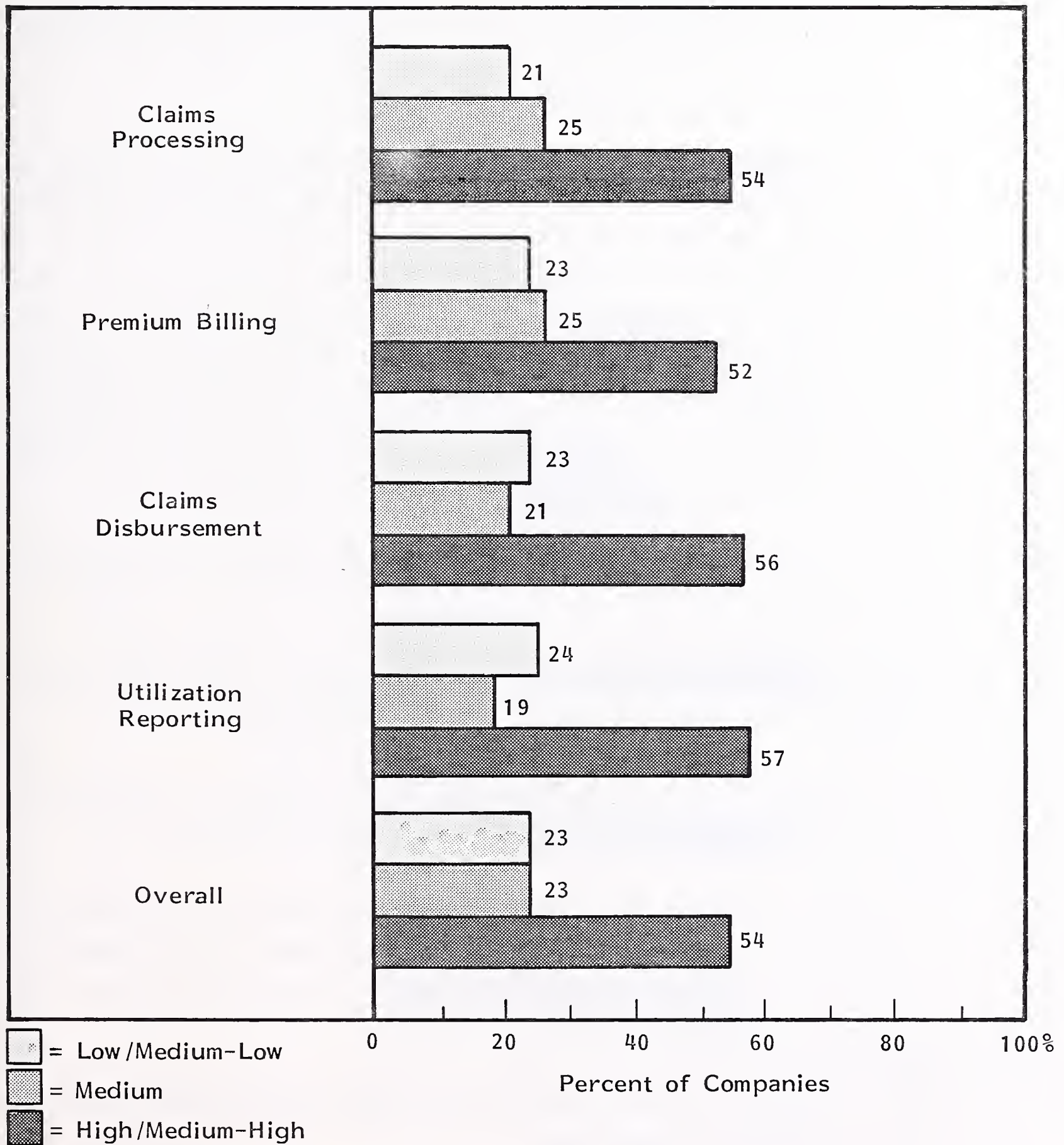


EXHIBIT V-1 (Cont.)

SATISFACTION WITH GROUP INSURANCE APPLICATIONS



- About one-quarter rated their satisfaction as low or medium-low. These ratings are quite consistent across application areas.
- A similar profile exists across company sizes, as shown in Exhibit V-2, with about one-quarter of companies in each size group being in the low/medium-low satisfaction group overall. (Companies tended to have fairly uniform satisfaction ratings across application categories.)
 - However, there is an interesting relationship between company size and dissatisfaction: as company size increases, dissatisfaction decreases, as shown in Exhibit V-3.
 - There is little difference in dissatisfaction, based on whether they have companies in-house or vendor software. This is probably due to the extensive modification of software packages. Those using affiliated companies' processing appear to be somewhat less satisfied, although the sample sizes are too small to say this with certainty.
 - Blue Cross responses were mixed and conclusions could not be drawn, due to sample size.
- Since it would be of considerable interest to understand what causes dissatisfaction, this issue was examined in several different ways.
 - Exhibit V-4 compares low or medium-low satisfaction as reported by user and EDP management across different sized companies.
 - Overall, the satisfaction between the two groups was quite close. Variations within company size groupings are not significant statistically and are not related to any qualitative findings in the survey.
 - Exhibit V-5 shows the percentage of companies with low or medium-low satisfaction by application.

EXHIBIT V-2

SATISFACTION WITH GROUP INSURANCE AUTOMATION, BY COMPANY SIZE

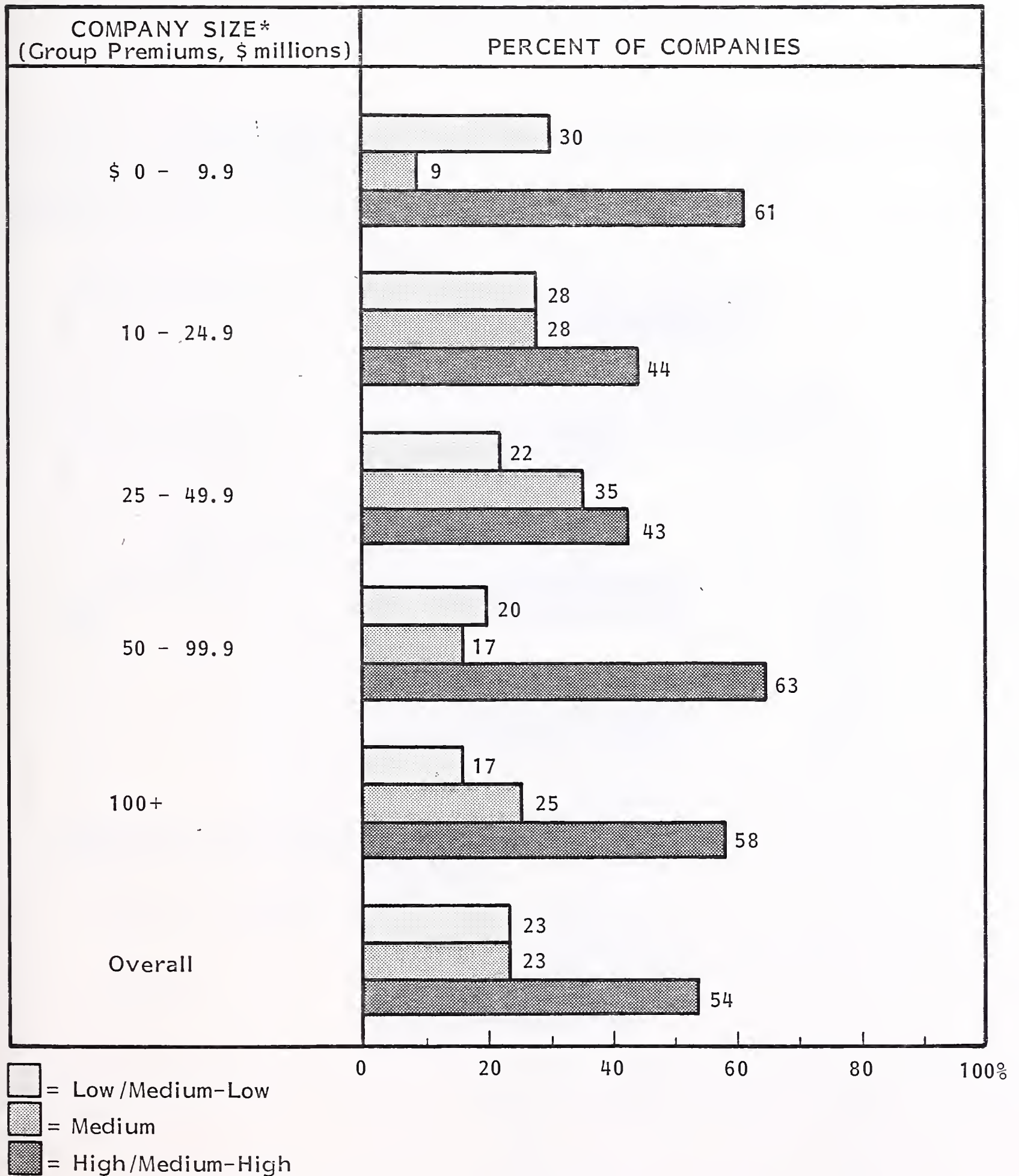


EXHIBIT V-3

PERCENT OF COMPANIES WITH LOW OR MEDIUM-LOW
SATISFACTION WITH GROUP INSURANCE AUTOMATION

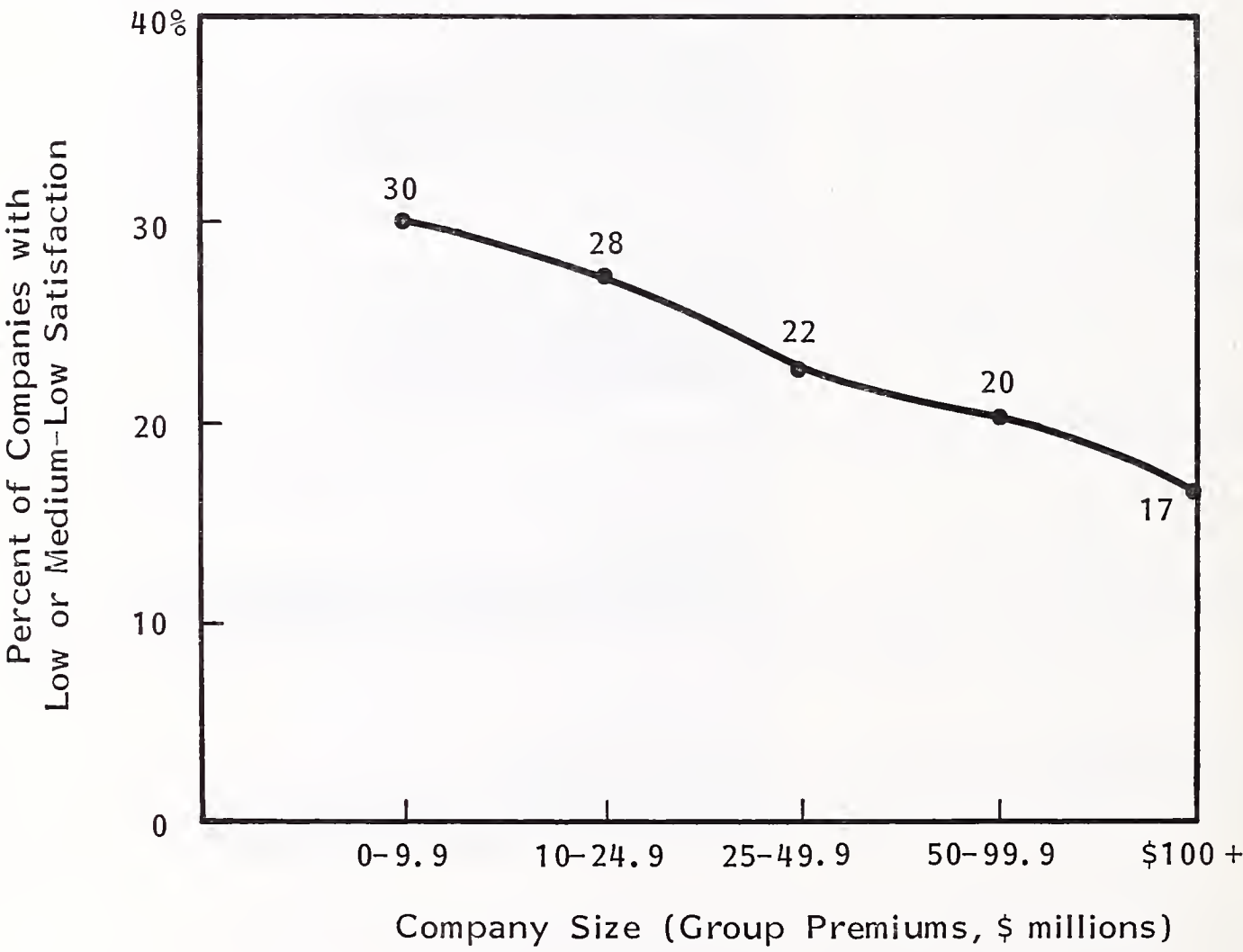


EXHIBIT V-4

EDP VERSUS USER SATISFACTION, BY COMPANY SIZE: PERCENT WITH LOW OR MEDIUM-LOW SATISFACTION

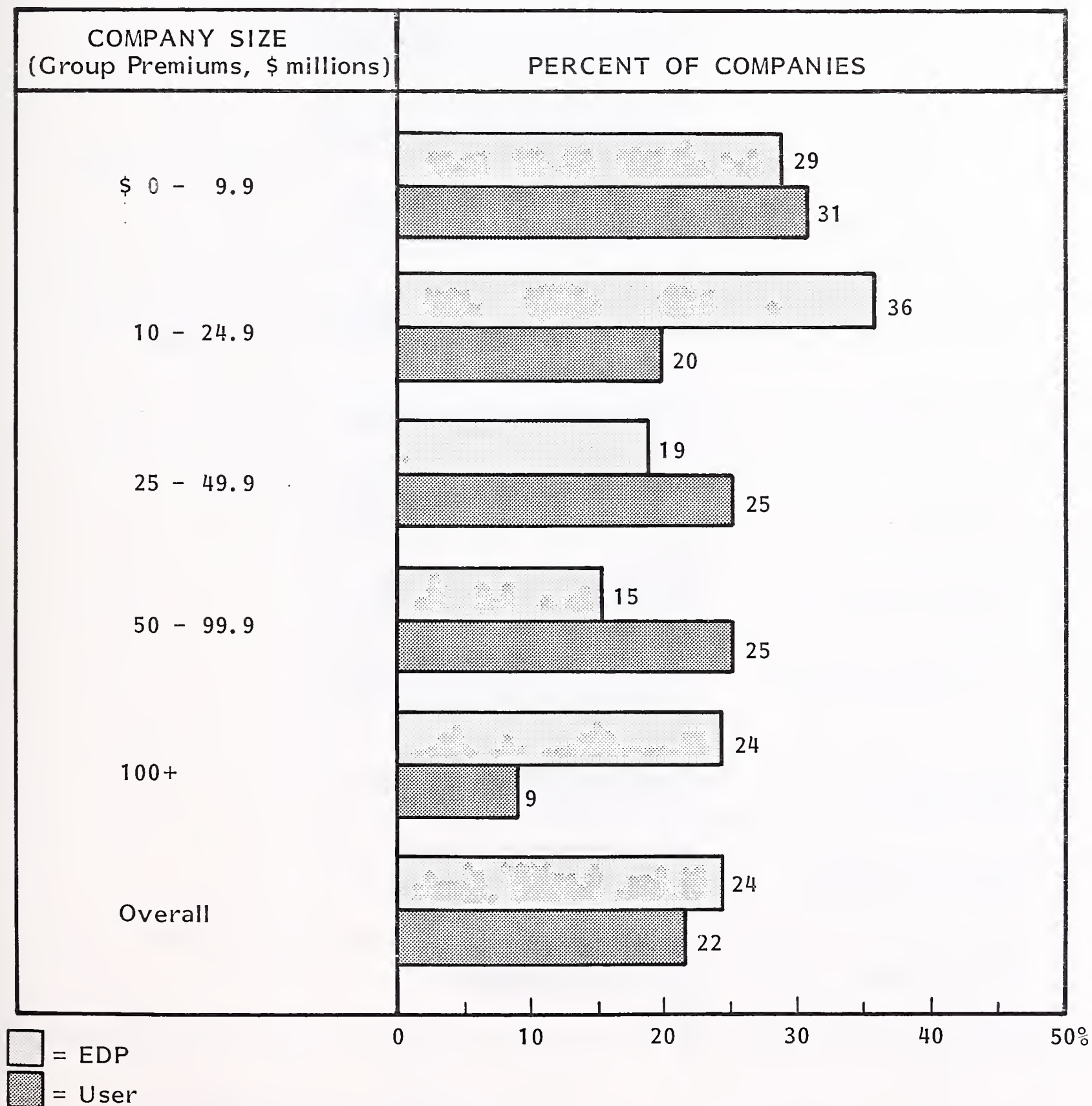
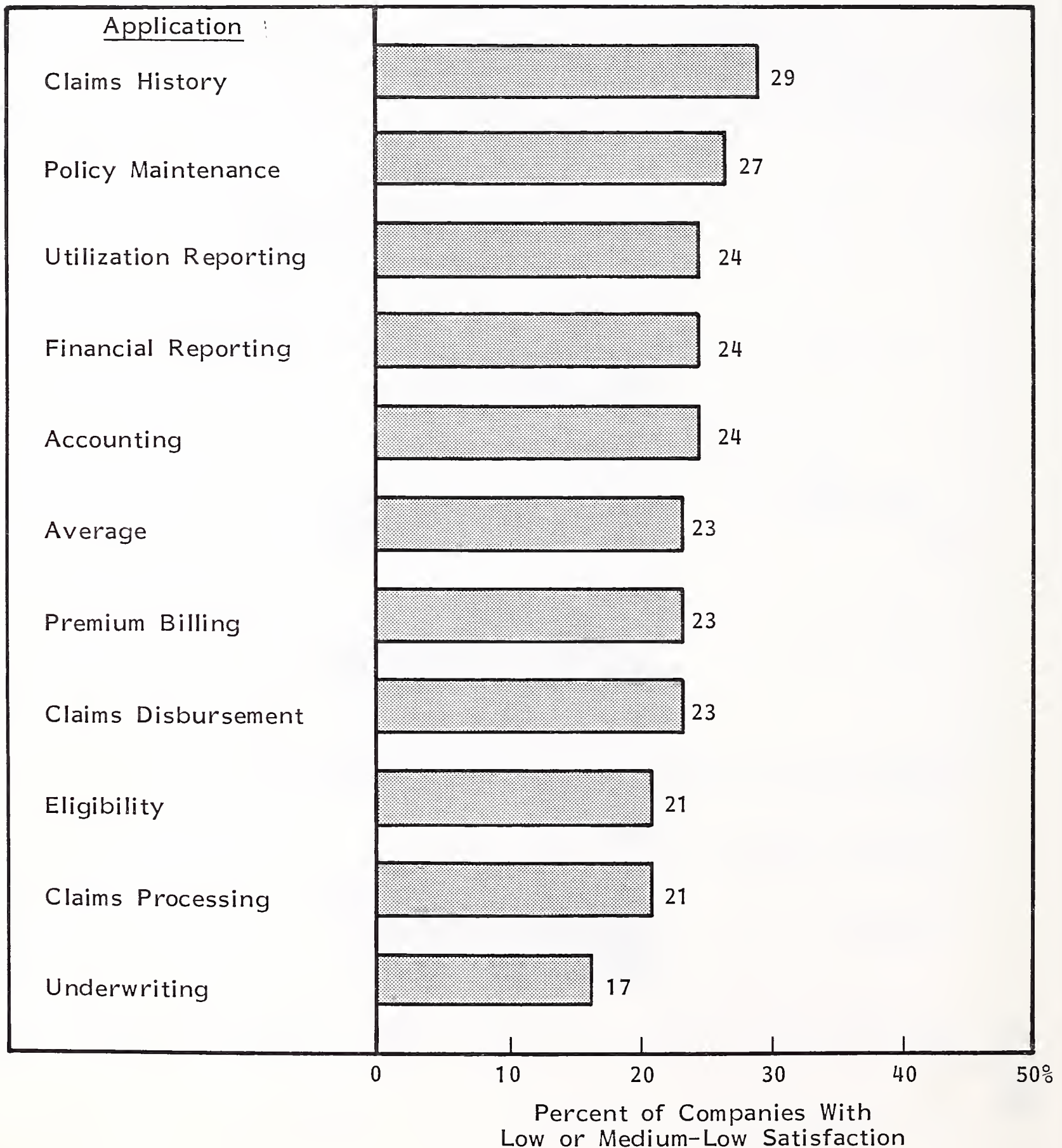


EXHIBIT V-5

SATISFACTION WITH GROUP INSURANCE APPLICATIONS:
PERCENT OF COMPANIES WITH LOW OR MEDIUM-LOW SATISFACTION



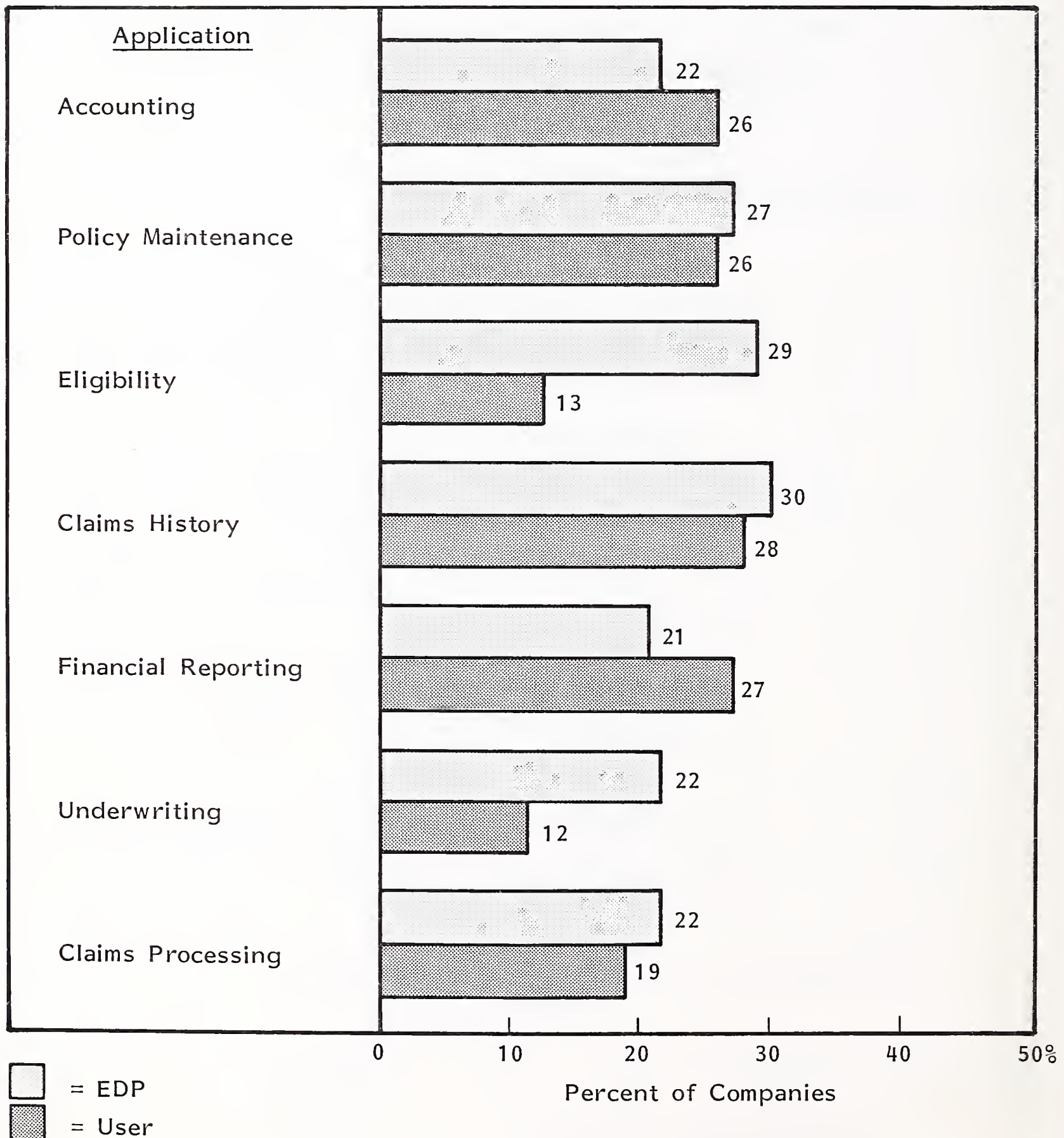
- . The file maintenance activities (claims, policy maintenance) show the most dissatisfaction, while underwriting (which is the least automated) shows the least dissatisfaction.
- . See Appendix C for a further breakout by company size.
- Again, the difference between EDP and user management dissatisfaction is relatively small, as shown in Exhibit V-6.

B. GENERAL ATTITUDES

- General attitudes toward in-house software, processing services, and vendor software were obtained by asking open-ended questions which probed for positive and negative comments on each of the three areas.
 - Exhibit V-7 shows the number of positive and negative comments received, segregated into EDP and user comments.
 - . EDP management, not surprisingly, had more comments in general.
 - . However, the comments from the two groups mirrored each other quite closely.
 - . Comments were evenly balanced on in-house software and vendor software. However, attitudes were quite negative concerning processing services.
- The open-ended comments were categorized into groups.

EXHIBIT V-6

EDP VERSUS USER SATISFACTION, BY APPLICATION: PERCENT WITH LOW OR MEDIUM-LOW SATISFACTION



(Continued)

EXHIBIT V-6 (Cont.)

EDP VERSUS USER SATISFACTION, BY APPLICATION:
PERCENT WITH LOW OR MEDIUM-LOW SATISFACTION

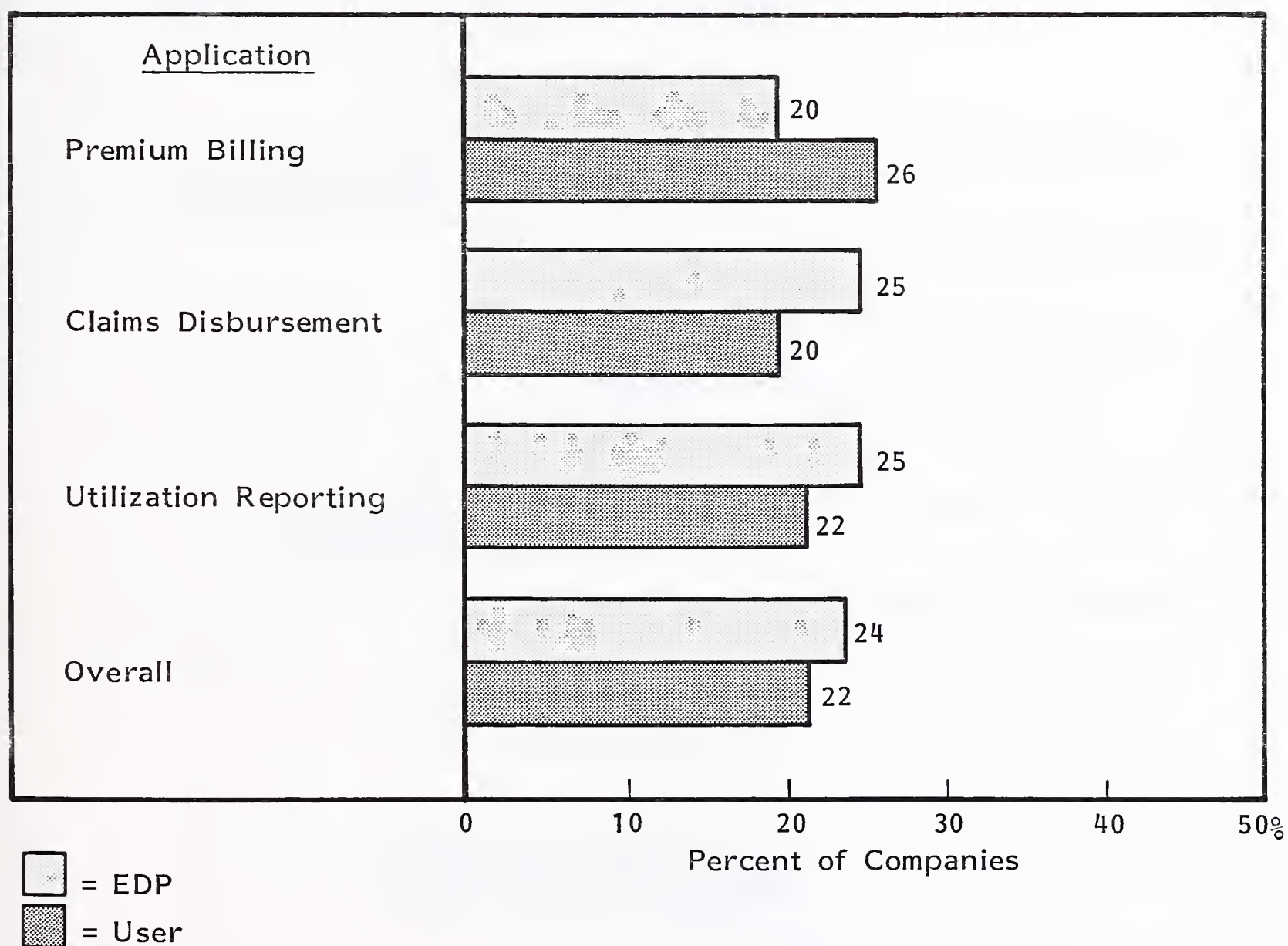
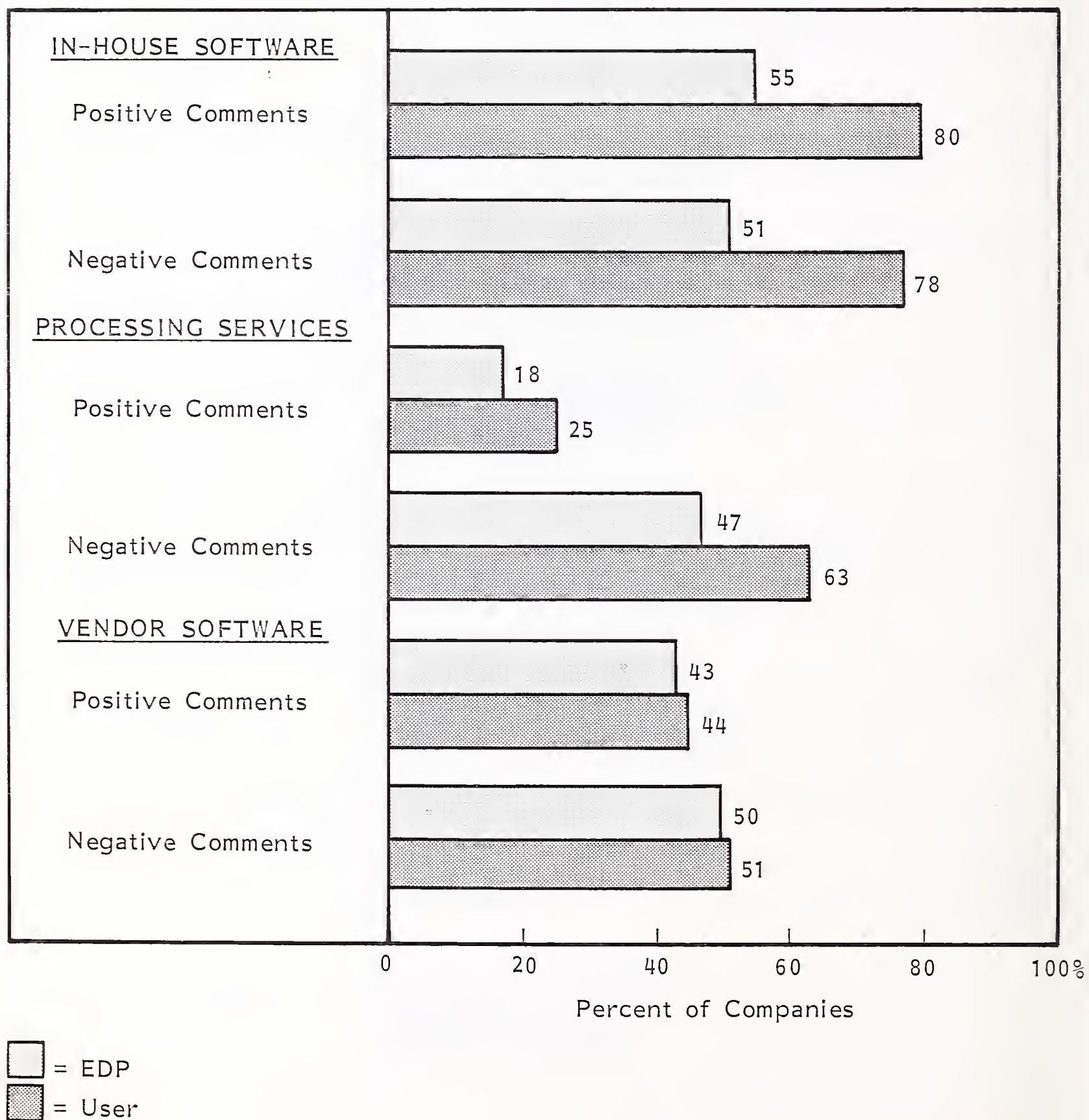


EXHIBIT V-7

GENERAL ATTITUDES TOWARD ALTERNATIVE SOURCES OF GROUP INSURANCE AUTOMATION (ALL COMPANIES)



NOTE: These were responses to open-ended questions.

- For example, negative comments on in-house software were largely directed at the time it takes to implement in-house systems; cost was also seen as a largely negative factor, as shown in Exhibit V-8.
- . On the other hand, in-house software was seen as being able to meet the company's needs and afford more flexibility and control.
- The largest number of negative comments toward processing services were those that saw nothing good about it, as shown in Exhibit V-9. Processing services were also seen as costing too much and involving the loss of too much control. Positive comments were not focused on specific areas.
- To some extent, attitudes toward vendor software are the mirror image of those toward in-house software: it is seen as helping to gain time in getting systems implemented, but the tradeoff is flexibility and less ability to meet the company's needs (seen especially by users), as shown in Exhibit V-10.

C. RATINGS

- In addition to queries about general attitudes, respondents were asked to rate the following ten specific criteria for in-house development, processing services, and vendor software, and provide an overall rating:
 - Speed of implementation.
 - Ease of implementation.
 - Ability to meet company requirements.

EXHIBIT V-8

ATTITUDE TOWARD IN-HOUSE SOFTWARE (ALL COMPANIES)

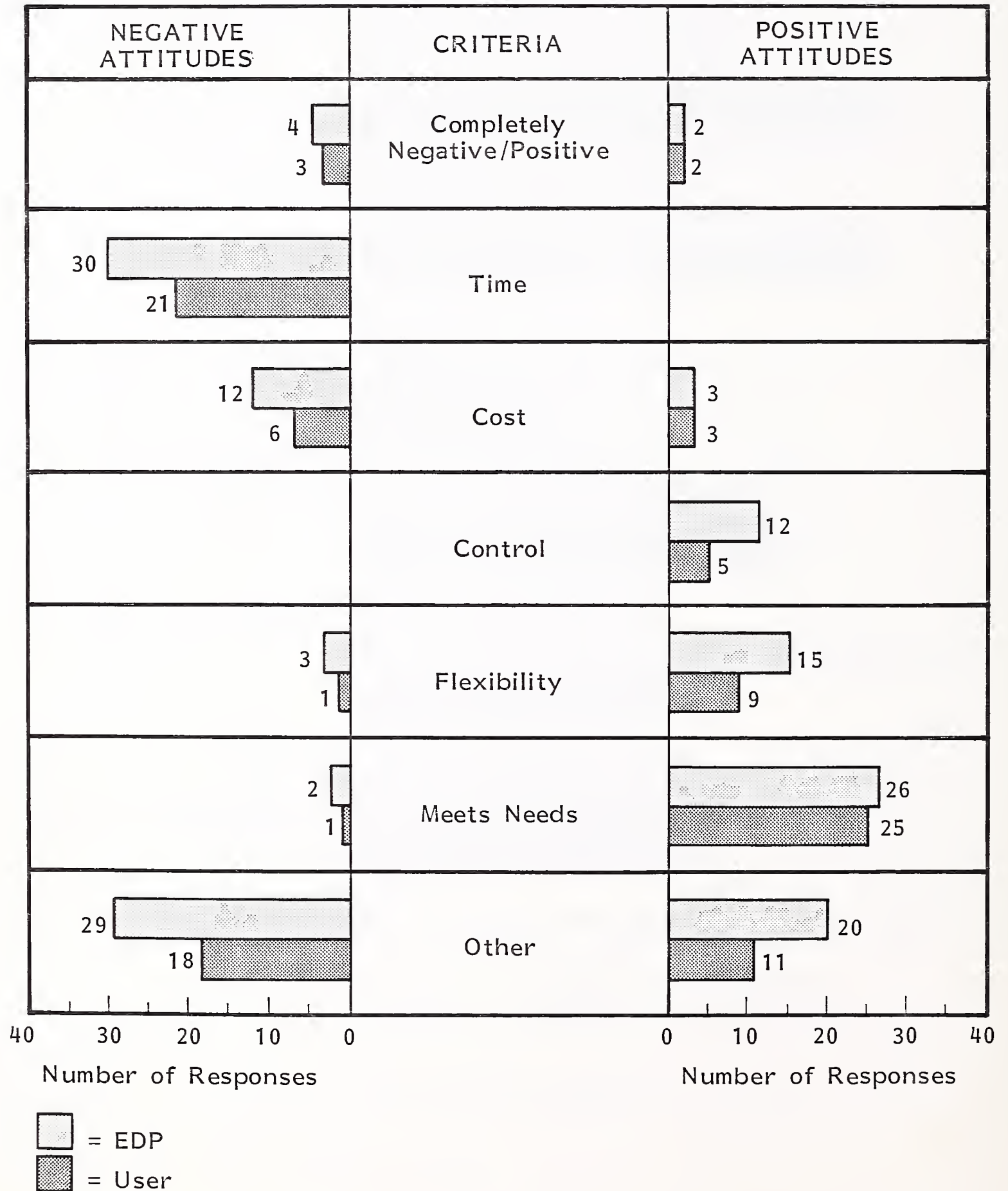


EXHIBIT V-9

ATTITUDE TOWARD PROCESSING SERVICES (ALL COMPANIES)

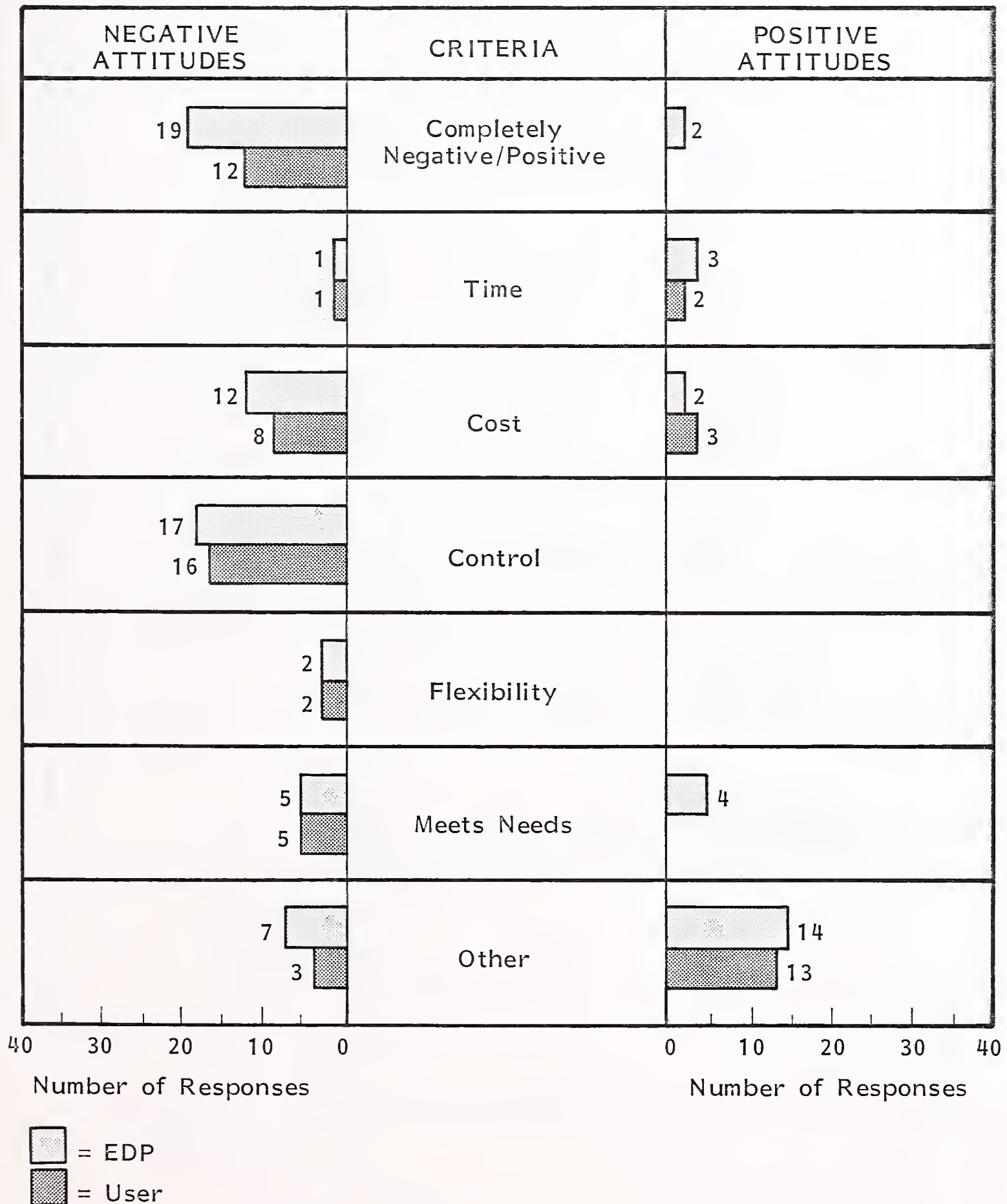
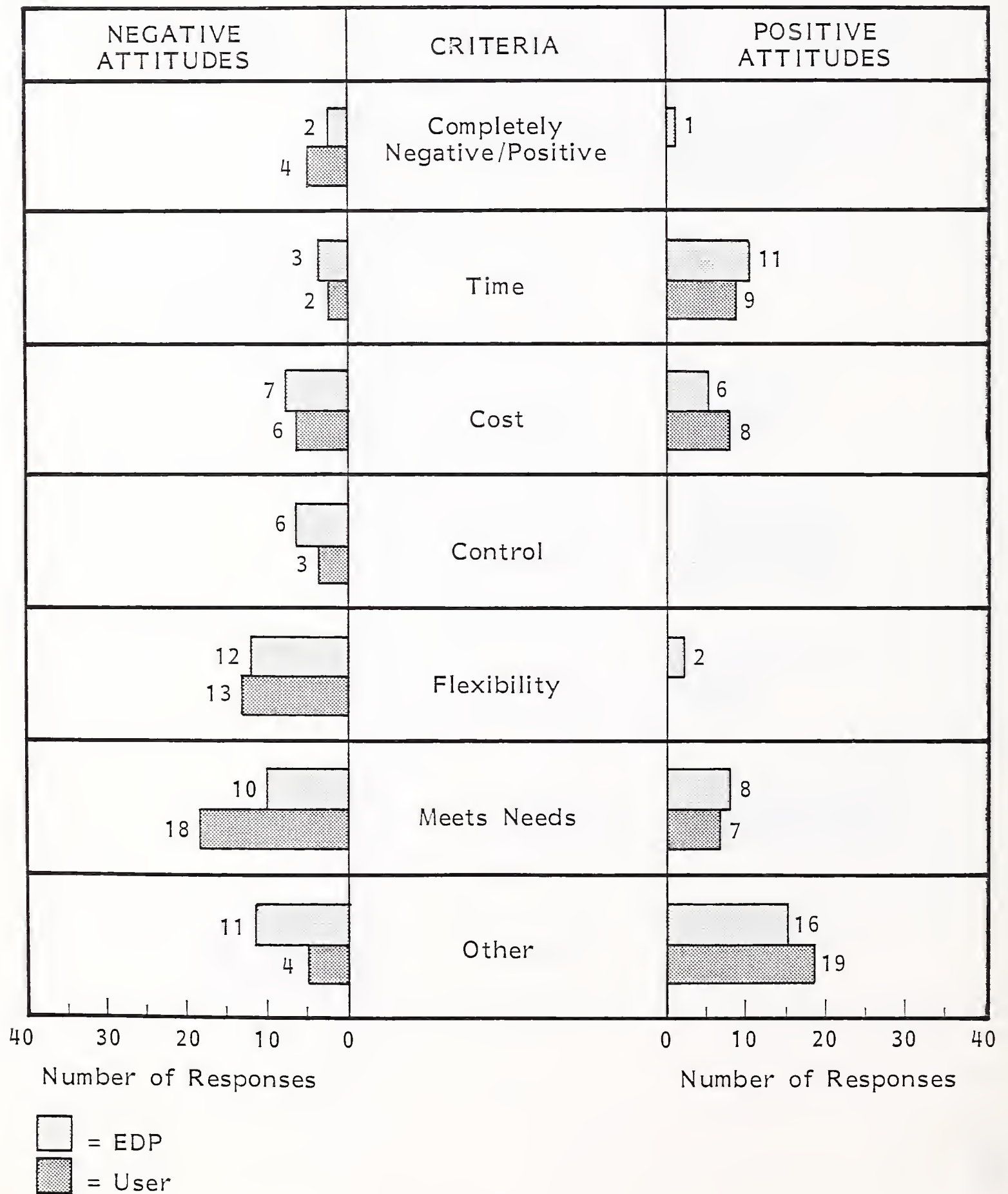


EXHIBIT V-10

ATTITUDE TOWARD VENDOR SOFTWARE (ALL COMPANIES)



- Reliability.
 - Conversion effort.
 - Maintenance effort.
 - Ability to make change easily.
 - Speed of changes.
 - Support effort.
 - Cost.
 - Overall rating.
- Ratings were made on the basis of 1 = low, 5 = high.
 - In general, the overall ratings and specific criteria ratings were consistent with the general attitudes shown in previous sections. In addition, EDP and user management generally gave similar ratings.
 - Exhibits V-11 and V-12 contrast the ratings by user and EDP management for in-house development.
 - Both rated "ability to meet company requirements" and "reliability" very high and both saw "speed of implementation" and "support effort" as a problem.
 - The smallest companies were quite unenthusiastic about in-house development.
 - Exhibits V-13 and V-14 contrast the ratings by user and EDP management for processing services.

EXHIBIT V-11

USER RESPONDENTS' RATING OF IN-HOUSE DEVELOPMENT

CRITERIA	COMPANY SIZE* (\$ millions)					
	UNDER \$10	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	OVER \$100	ALL COMPANIES
Speed of Implementation	2.6	3.0	2.5	2.5	2.8	2.7
Ease of Implementation	2.8	3.1	2.9	3.1	3.7	3.1
Ability to Meet Company Requirements	3.2	4.1	4.6	4.3	4.5	4.1
Reliability	3.0	3.8	4.1	4.1	4.3	3.9
Conversion Effort	3.0	3.4	3.6	3.4	4.1	3.5
Maintenance Effort	3.0	3.3	3.6	3.4	3.8	3.4
Ability to Make Change Easily	3.0	3.5	3.6	3.9	4.0	3.6
Speed of Changes	3.3	3.5	3.3	3.9	3.5	3.5
Support Effort	2.5	3.2	2.4	3.3	2.9	2.9
Cost	2.0	3.2	3.5	3.0	3.4	3.0
Overall Rating	2.8	3.4	3.4	3.5	3.7	3.4

* By Group Size
Rating: 1 = Low, 3 = Medium, 5 = High

EXHIBIT V-12

EDP RESPONDENTS' RATING OF IN-HOUSE DEVELOPMENT

CRITERIA	COMPANY SIZE* (\$ millions)							TOTAL
	UNDER \$10	\$10 – 24.9	\$25 – 49.9	\$50 – 99.9	OVER \$100	BLUE CROSS		
Speed of Implementation	2.2	3.1	2.6	2.9	3.4	2.8	2.8	
Ease of Implementation	2.5	3.2	2.8	3.4	3.4	3.0	3.1	
Ability to Meet Company Requirements	3.2	4.3	4.5	4.8	4.3	4.5	4.3	
Reliability	3.4	3.8	4.3	4.6	4.3	4.5	4.2	
Conversion Effort	3.3	3.5	3.3	3.5	3.0	3.0	3.3	
Maintenance Effort	3.0	3.7	3.6	4.2	4.3	4.2	3.8	
Ability to Make Change Easily	3.2	3.6	3.7	4.3	4.0	3.5	3.7	
Speed of Changes	3.2	3.6	3.6	4.0	4.0	3.3	3.6	
Support Effort	2.0	3.2	2.5	2.9	2.9	1.7	2.5	
Cost	2.4	3.0	2.7	3.3	3.5	2.8	3.0	
Overall Rating	2.8	3.5	3.4	3.8	3.7	3.3	3.4	

* By Group Size
Rating: 1 = Low, 3 = Medium, 5 = High

EXHIBIT V-13

USER RESPONDENTS' RATING OF PROCESSING SERVICES

CRITERIA	COMPANY SIZE* (\$ millions)							ALL COMPANIES
	UNDER \$10	\$10 – 24.9	\$25 – 49.9	\$50 – 99.9	OVER \$100			
Speed of Implementation	3.0	2.8	3.5	4.0	3.2		3.3	
Ease of Implementation	2.3	2.7	3.5	2.0	3.2		2.7	
Ability to Meet Company Requirements	2.7	2.5	2.6	2.0	2.6		2.5	
Reliability	2.7	2.5	3.4	3.0	2.7		2.9	
Conversion Effort	2.0	2.5	3.0	2.0	2.4		2.4	
Maintenance Effort	2.3	2.4	2.8	3.0	2.8		2.7	
Ability to Make Change Easily	2.7	2.4	2.7	2.0	2.7		2.5	
Speed of Changes	2.3	2.5	2.7	2.0	2.7		2.4	
Support Effort	2.0	2.6	3.2	2.5	2.6		2.6	
Cost	2.7	2.4	2.1	2.0	2.2		2.3	
Overall Rating	2.7	2.5	3.0	2.5	2.7		2.7	

* By Group Size
Rating: 1 = Low, 3 = Medium, 5 = High.

EXHIBIT V-14

EDP RESPONDENTS' RATING OF PROCESSING SERVICES

CRITERIA	COMPANY SIZE* (\$ millions)							TOTAL
	UNDER \$10	\$10 – 24.9	\$25 – 49.9	\$50 – 99.9	OVER \$100	BLUE CROSS		
Speed of Implementation	3.3	3.0	4.0	3.6	3.4	4.4	3.6	
Ease of Implementation	3.0	2.4	3.9	2.8	3.4	4.4	3.3	
Ability to Meet Company Requirements	2.7	2.0	3.3	2.0	3.0	3.7	2.8	
Reliability	3.0	2.4	4.0	2.3	3.4	4.3	3.2	
Conversion Effort	2.7	2.0	3.4	2.5	2.6	3.5	2.8	
Maintenance Effort	3.0	2.3	3.9	2.5	3.4	4.5	3.3	
Ability to Make Change Easily	2.8	1.9	3.1	2.4	2.4	3.3	2.7	
Speed of Changes	2.7	1.9	3.0	2.0	2.4	3.3	2.6	
Support Effort	2.8	2.6	3.6	2.3	3.0	4.7	3.2	
Cost	3.0	2.2	2.6	2.0	2.4	3.7	2.7	
Overall Rating n=6	2.9	2.3	3.5	2.4	2.9	4.0	3.0	

* By Group Size

Rating: 1 = Low, 3 = Medium, 5 = High

- Users were less enthusiastic than EDP management. Blue Cross/Shield (in a limited sample) were quite enthusiastic.
- Both user and EDP management were fairly well disposed to vendor software, as shown in Exhibits V-15 and V-16. Speed of implementation, reliability, and maintenance effort were seen as particular advantages.
- Some general observations can be made:
 - Small companies tend to be negative toward all three approaches.
 - Blue Cross/Shield (from a small sample) tended to rate all three approaches highly.
 - Large companies' EDP management did not care for vendor software.

USER RESPONDENTS' RATING OF VENDOR SOFTWARE

CRITERIA	COMPANY SIZE* (\$ millions)							ALL COMPANIES
	UNDER \$10	\$10 – 24.9	\$25 – 49.9	\$50 – 99.9	OVER \$100			
Speed of Implementation	2.3	2.9	3.6	3.7	3.4		3.2	
Ease of Implementation	2.3	2.8	3.4	3.5	3.2		3.0	
Ability to Meet Company Requirements	2.7	2.8	3.1	3.3	2.4		2.9	
Reliability	2.7	3.4	3.6	3.7	3.4		3.4	
Conversion Effort	2.7	3.0	3.5	3.2	2.9		3.1	
Maintenance Effort	2.7	3.4	3.1	3.8	3.4		3.3	
Ability to Make Change Easily	2.7	3.2	3.1	3.3	2.8		3.0	
Speed of Changes	2.7	3.2	3.1	3.3	2.9		3.0	
Support Effort	3.0	3.2	3.7	3.0	2.9		3.2	
Cost	3.3	3.1	3.0	3.3	3.1		3.2	
Overall Rating	2.7	3.1	3.3	3.4	3.0		3.1	

* By Group Size
Rating: 1 = Low, 3 = Medium, 5 = High

EXHIBIT V-16

EDP RESPONDENTS' RATING OF VENDOR SOFTWARE

CRITERIA	COMPANY SIZE* (\$ millions)						
	UNDER \$10	\$10 – 24.9	\$25 – 49.9	\$50 – 99.9	OVER \$100	BLUE CROSS	TOTAL
Speed of Implementation	2.8	2.9	3.5	4.0	3.0	4.0	3.4
Ease of Implementation	2.8	2.4	3.2	3.6	2.8	4.1	3.2
Ability to Meet Company Requirements	2.8	2.2	3.2	3.5	2.8	3.7	3.0
Reliability	3.4	3.4	3.9	3.7	3.3	4.6	3.7
Conversion Effort	3.0	2.8	3.0	3.0	3.1	3.2	3.0
Maintenance Effort	3.4	3.2	3.5	3.0	3.1	4.0	3.4
Ability to Make Change Easily	2.8	2.7	3.5	3.1	2.9	3.4	3.1
Speed of Changes	2.8	2.6	3.3	3.1	2.9	3.6	3.0
Support Effort	2.4	2.4	3.7	3.3	3.0	3.5	3.1
Cost	2.8	2.7	3.5	3.6	2.2	3.0	3.0
Overall Rating	2.9	2.7	3.4	3.4	2.9	3.7	3.2

* By Group Size
Rating: 1 = Low, 3 = Medium, 5 = High

VI MARKET SIZE AND OPPORTUNITIES

- This chapter will examine three critical elements.
 - Company automation plans.
 - The projected market size.
 - Market opportunities.

A. AUTOMATION PLANS

- Most companies in all size ranges are planning sizable automation initiatives in the next several years, as shown in Exhibit VI-1.
- Companies were asked about the source of their future automation at two places in the interview, since this is a critical issue for this study and for ISA.
 - Exhibit VI-2 shows the results of an early question which followed initial questions on automation status and plans.
 - At this "cold" stage, 30% saw themselves using vendor software, none using processing services, and 17% did not know.

EXHIBIT VI-1

PERCENT OF COMPANIES WITH
SIGNIFICANT AUTOMATION PLANS, BY COMPANY SIZE

AUTOMATION PLANS	COMPANY SIZE* (\$ millions)					
	UNDER \$10	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	OVER \$100	TOTAL
All /Most Systems	8%	27%	46%	20%	38%	28%
Claims	31	10	18	17	29	20
Other (Significant)	23	33	18	25	9	22
None	38	30	18	38	24	30
Total	100%	100%	100%	100%	100%	100%

* Measured By Group Size

EXHIBIT VI-2

SOURCE OF FURTHER AUTOMATION, BY COMPANY SIZE

CRITERIA	COMPANY SIZE* (\$ millions)					
	UNDER \$10	\$10 - 24.9	\$25 - 49.9	\$50 - 99.9	OVER \$100	TOTAL
In-House	40%	70%	50%	54%	50%	53%
Vendor Software	60	17	33	13	25	30
Processing Service	0	0	0	0	0	0
Don't Know	0	13	17	33	25	17
Total	100%	100%	100%	100%	100%	100%

* Measured By Group Size

- Exhibits VI-3 and VI-4 show the results of questions that asked about companies' inclinations to use processing services and vendor software after the series of questions on attitudes and ratings had been completed (i.e., respondents had been "warmed up").
 - Most "don't knows" resolved themselves, giving processing services a tiny share (from companies which saw that they would, realistically, stick with what they had).
 - One-quarter of respondents had a strong inclination to use vendor software, and 22% more with, at the least, an open mind.

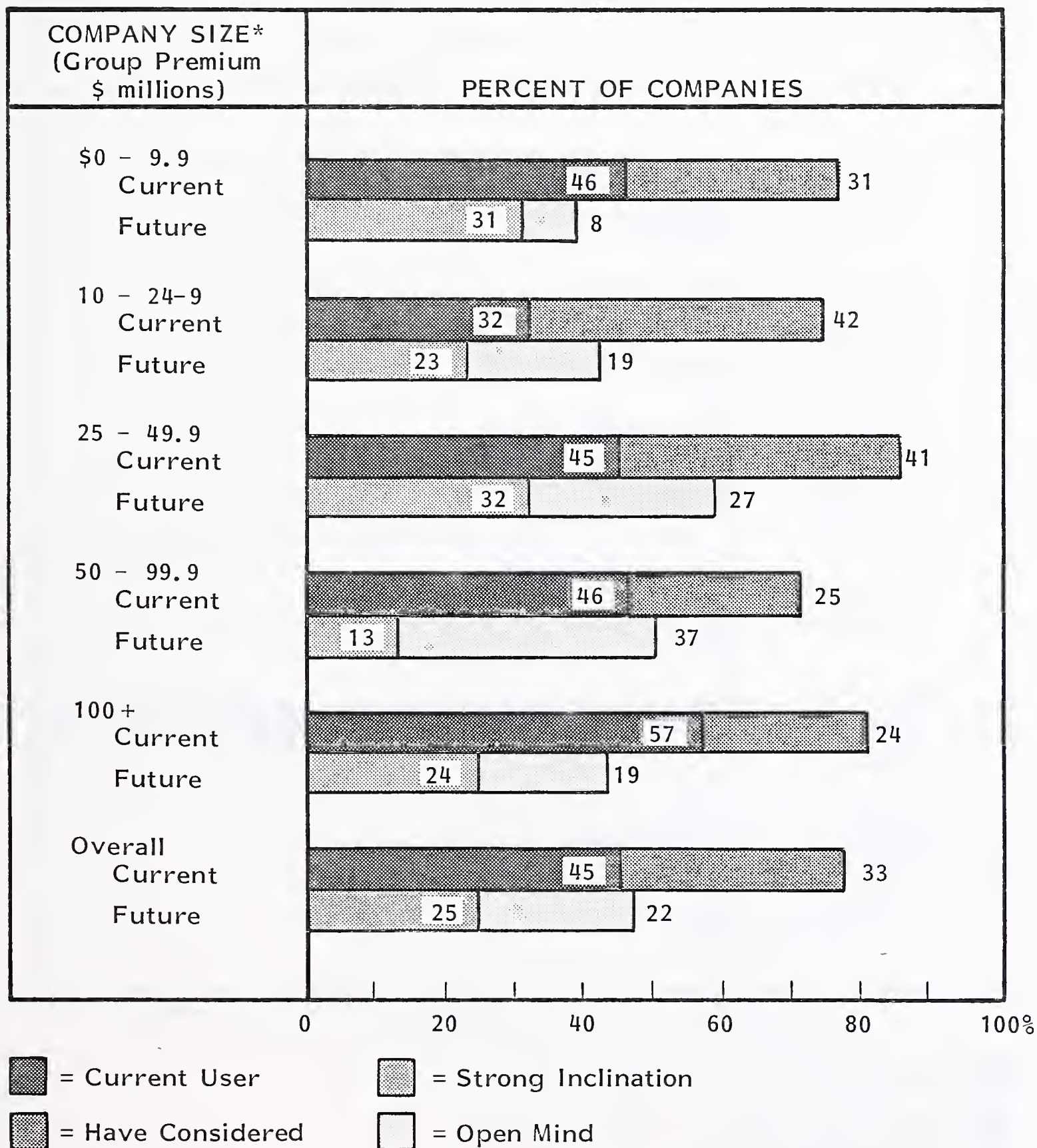
B. MARKET SIZING

- INPUT has sized the market for vendor services by allocating 100% of the "strong inclination" responses and 50% of those who had an "open mind" toward a particular source of processing.
 - This methodology results in an average of 35% for vendor software and 5% for processing services.
 - Since the future market for processing services is small and appears to be mostly locked in by current vendors, no further projections are made in this study.
- The potential market for vendor software extends down no lower than companies with at least \$5 million in annual premiums (and even this floor may be unduly optimistic).
 - This leaves a maximum potential market of 209 companies (i.e., "operating units").

VI MARKET SIZE AND OPPORTUNITIES

EXHIBIT VI-3

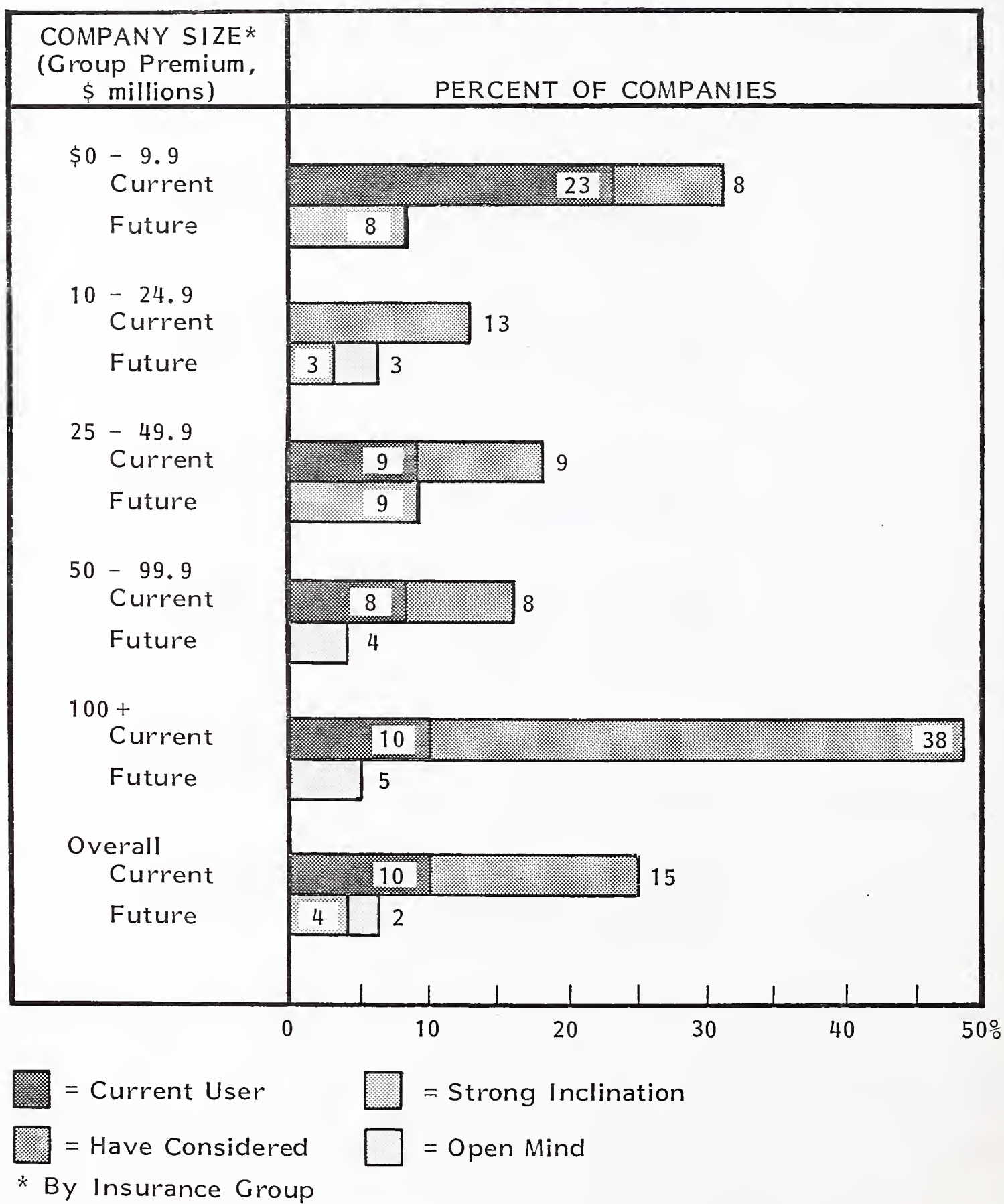
CURRENT USE AND FUTURE PLANS FOR USING VENDOR SOFTWARE, BY COMPANY SIZE



* By Insurance Group

EXHIBIT VI-4

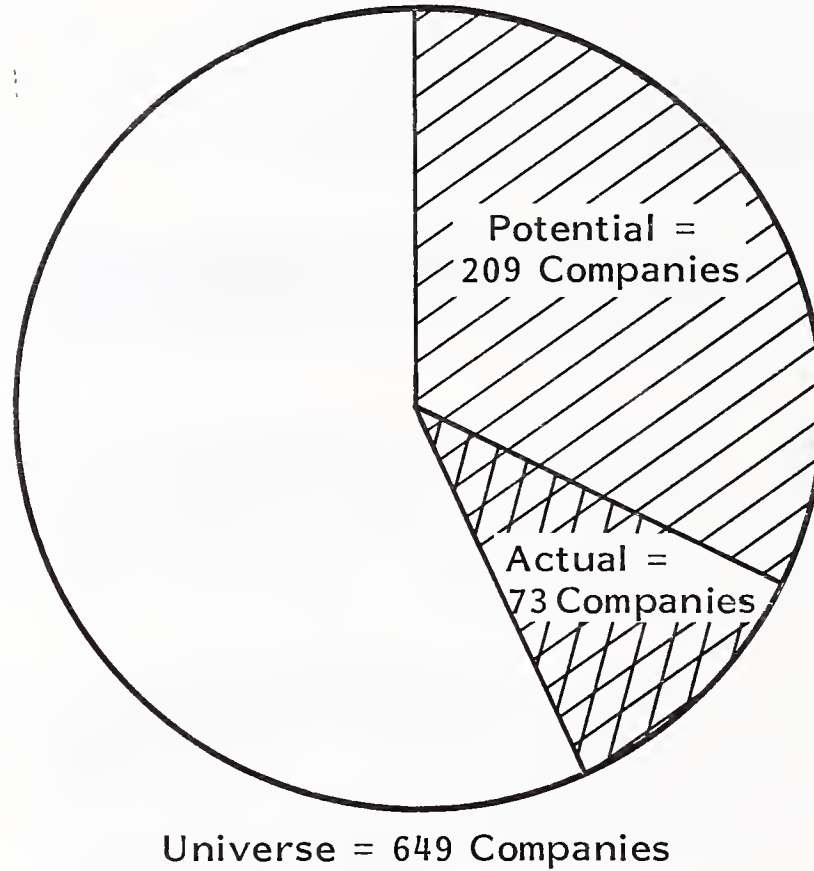
CURRENT USE AND FUTURE PLANS FOR USING
PROCESSING SERVICES, BY COMPANY SIZE



- Applying 35% against this total produces an actual market of approximately 73 companies.
 - . Exhibit VI-5 shows how the 73 companies would be divided by company size categories.
- There would be about 40 companies in the most attractive segment, the \$10-100 million company.
 - Smaller companies would be unlikely to be able to afford the cost of a software package, unless significant expansion plans were underway.
 - Larger companies would be likely to buy the code as an internal development shortcut. They would be an immediate implementation burden on ISA, but would be unlikely to produce maintenance revenues.
- Another factor is that automation plans for some companies are at least partially dependent on the financial condition of the overall company and/or its group insurance operation, as shown in Exhibit VI-6.
 - This is especially true for the \$10 to \$50 million company.
 - This is not to say that none of these companies will avoid expanding automation because of its financial condition; it is just another hurdle.
 - . This issue could become critical if the performance of the economy or, especially, the group insurance industry continues to decline.
- This will make it even more important to understand how the purchasing process works in a particular company, as shown in Exhibit VI-7.

EXHIBIT VI-5

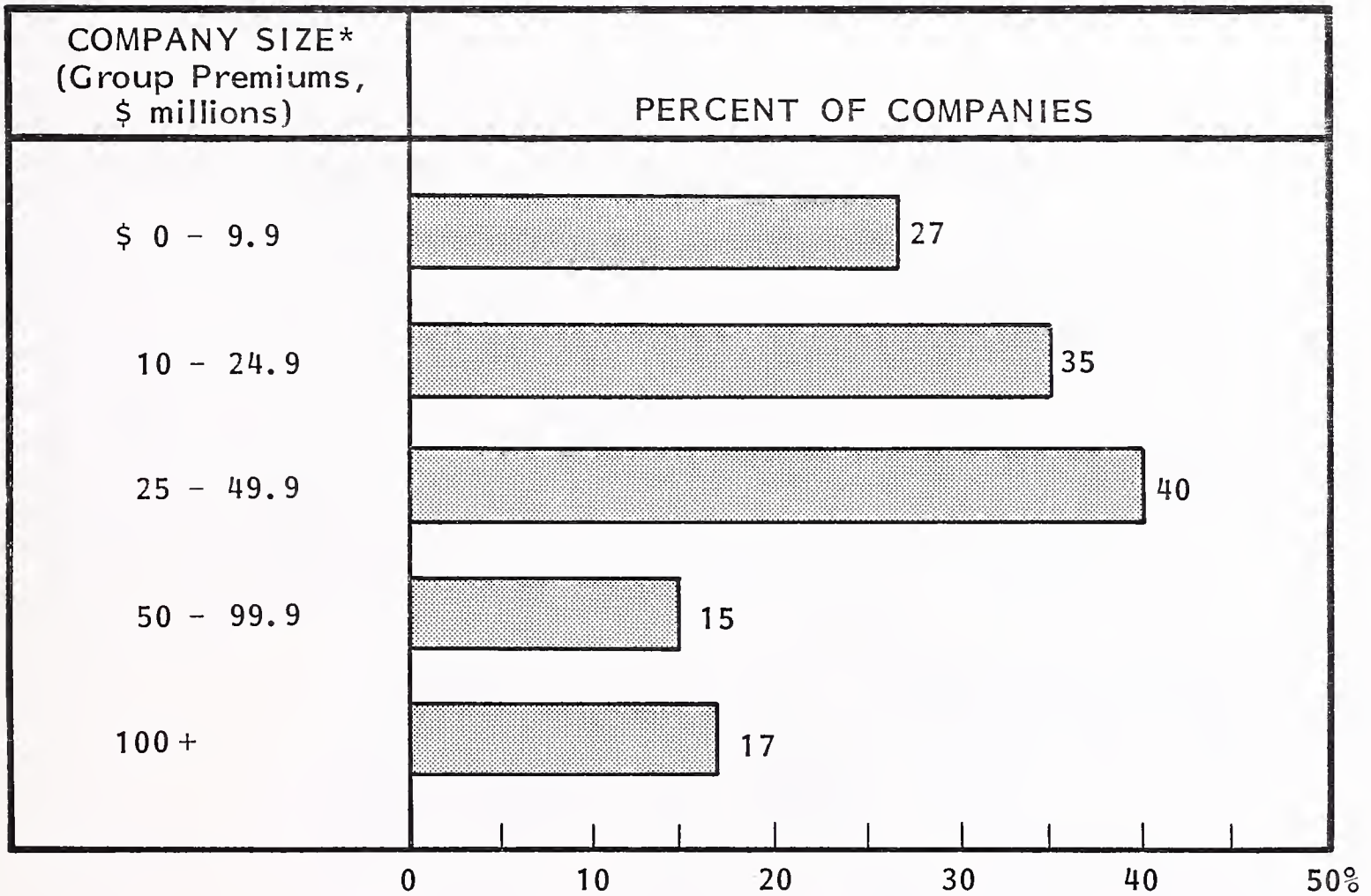
GROUP INSURANCE SOFTWARE MARKET



NUMBER OF COMPANIES	COMPANY SIZE
12	\$100 - 600 Million
11	\$ 50 - 99.9 Million
12	\$ 25 - 49.9 Million
22	\$ 10 - 24.9 Million
16	\$ 5 - 9.9 Million
73	Total

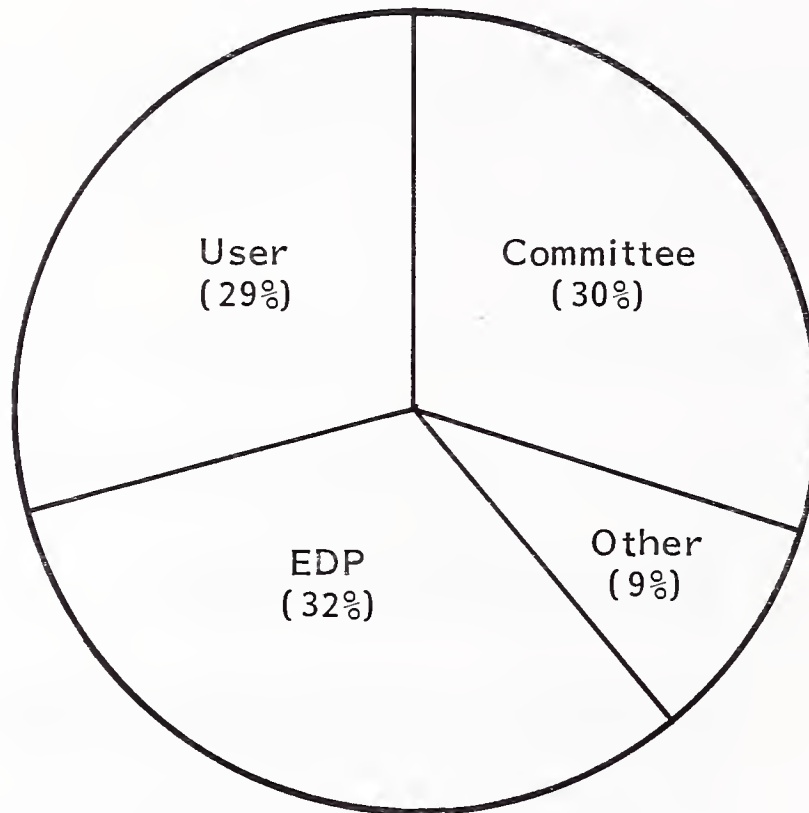
EXHIBIT VI-6

PROPORTION OF COMPANIES WHOSE AUTOMATION PLANS ARE DEPENDENT ON THEIR FINANCIAL CONDITION

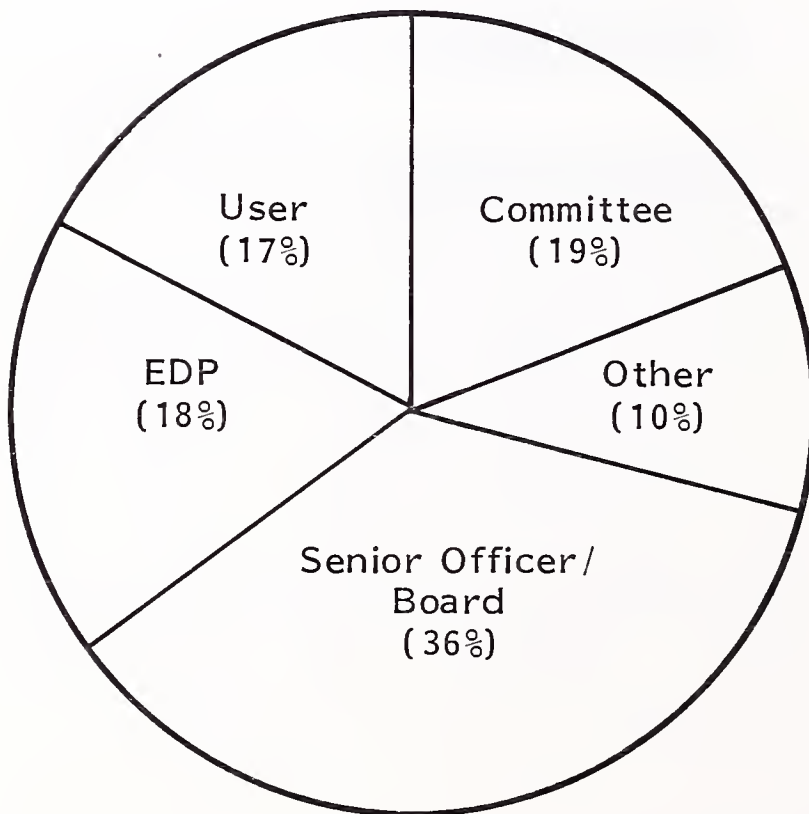


* By Group

EXHIBIT VI-7
ORGANIZATIONAL UNITS INVOLVED IN
PURCHASING PROCESS



RECOMMENDS



DECIDES

- "Other," for example, includes subsidiaries who must usually have decisions made by the parent (and sometimes recommendations approved as well).

C. MARKET OPPORTUNITIES

- In order to understand the market for vendor software, it is useful to understand the differences between companies with strong inclinations to use vendor software and all companies.
 - Exhibit VI-8 makes this comparison in ten areas.
 - In two cases there is a strong difference between the two groups: use of affiliate processing and low or medium-low satisfaction.
 - A much more striking difference is shown in Exhibit VI-9, which takes Exhibit IV-1 and compares the figures for companies with a strong inclination to use vendor software and all companies.
 - Companies strongly inclined to use vendor software are much more likely to be "positive" companies (i.e., those planning expansion but not contraction).

EXHIBIT VI-8

COMPARISONS BETWEEN ALL COMPANIES AND THOSE
WITH STRONG INCLINATIONS TO USE VENDOR SOFTWARE
(percent)

CURRENT AUTOMATION MANUAL	STRONG VENDOR SOFTWARE INCLINATION	ALL COMPANIES
Manual	19%	20%
Batch	57	48
Non-Interactive	19	19
Interactive	5	13
SOURCE OF CURRENT AUTOMATION		
In-House	64%	71%
Vendor	22	25
Affiliate	14 *	3
LOW /MEDIUM-LOW SATISFACTION	43%*	23%
USER INITIATIVE	75%	73%
IN-HOUSE SOFTWARE	65%	78%

* Important Difference

EXHIBIT VI-9

COMPANIES' FUTURE PLANS FOR GROUP INSURANCE: THOSE WITH STRONG INCLINATION TO USE VENDOR SOFTWARE AND ALL COMPANIES

		Companies Planning Expansion		
		YES	NO	TOTAL
Companies Planning Contraction	YES	9% (29%) Mixed	0 (6%) Negative	9% (35%)
	NO	73% (40%) Positive	18% (25%) Neutral	91% (65%)
	TOTAL	82% (69%)	18% (31%)	100% (100%)

Note: Figure for all companies in parentheses

VII CONCLUSIONS

VII CONCLUSIONS

- The market for outside processing services is quite small now. There appear to be few, if any, future opportunities.
- There is a definite market for software packages, largely due to the amount of increased or enhanced automation planned by most companies.
 - At least one-third of life/health companies will be prospects for a vendor-supplied software over the next three years.
- However, this potential market opportunity should be balanced by the following factors:
 - The overall size of the market is relatively limited. At most, two hundred companies are the potential market for vendor-supplied software.
 - Many of these, of course, would not be prospects for a long time, if ever, due to extensive in-house development underway, or having recently acquired packaged software.
 - There are already several vendors established in this market which appear to be supplying at least adequate service.

- Larger companies appear to be mostly interested in acquiring "shell" software which they would then modify extensively. This has two shortcomings from a vendor standpoint.
 - . There is considerable customization involved, little, if any, which can be spread to the rest of the customer base.
 - . There is no opportunity for profitable standard maintenance, where modification costs are spread over many customers.
- In INPUT's opinion the market would be both larger and more profitable for group insurance software somewhat different in concept from that which exists now.
 - Current software packages have, in the eyes of most companies, more negative than positive points, as shown in Exhibit VII-1.
- INPUT believes that software designed around the concept shown in Exhibit VII-2 would have a greater chance of acceptance and use as delivered than software currently offered.
 - Current software is often extensively modified at the time of installation so that initial time and costs are increased and, more importantly from the vendor's standpoint, there are many fewer economies of scale in maintenance. The very successful software firms receive an increasing percentage of their revenues from software maintenance.
- This approach would appeal to companies much more than current packaged software since, if the package were well-designed, there would be less and easier customization and the vendor could perform most maintenance.

EXHIBIT VII-1

EXTENT TO WHICH COMPANIES' NEEDS ARE MET BY CURRENT GROUP SOFTWARE PACKAGES

	NEGATIVE IMPACT	POSITIVE IMPACT
Time Saved	-	+
Meets Initial Needs	--	+
Installation Needs/Modifications	--	
On-Going Flexibility/Control	-	

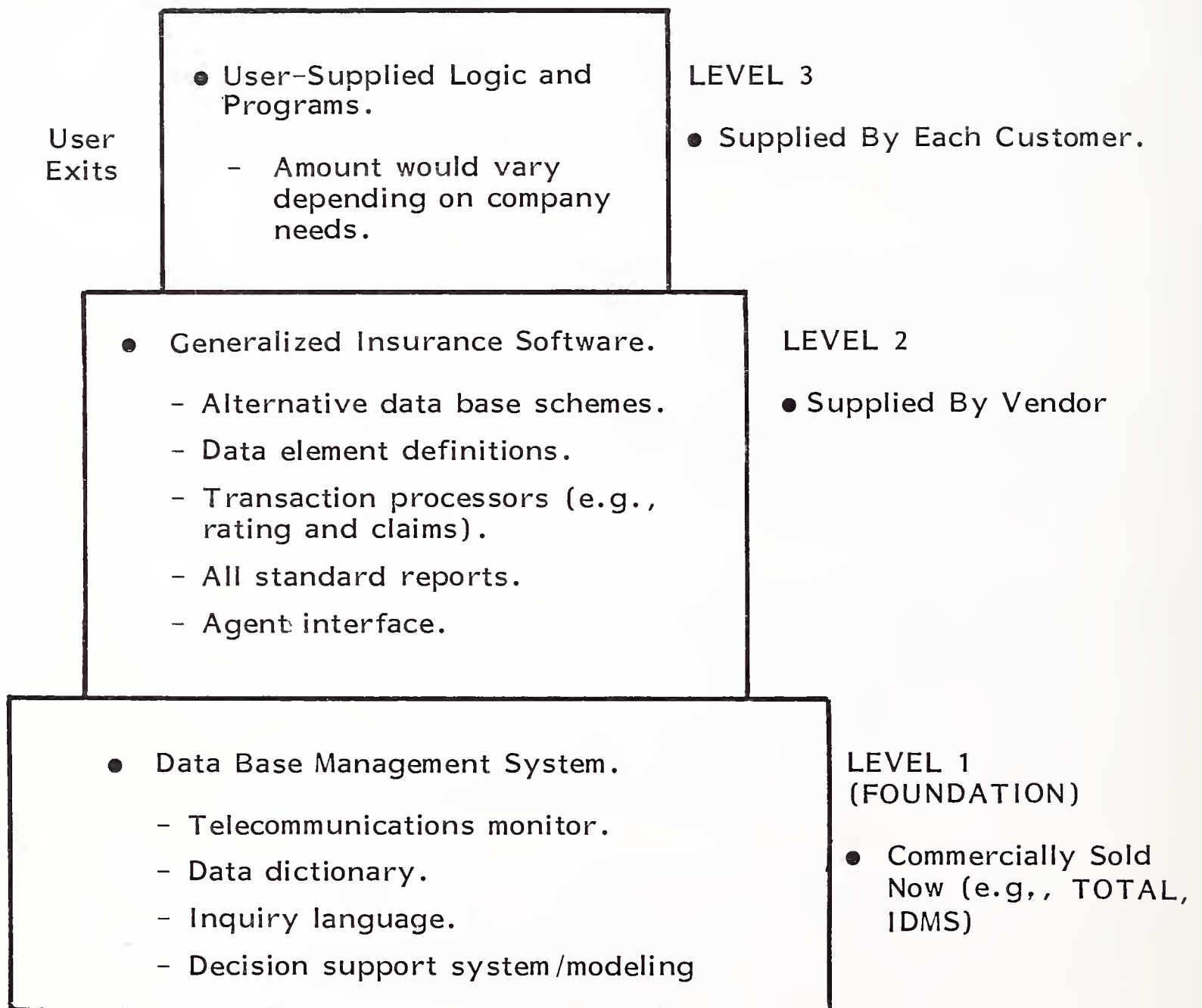
+ = Positive

- = Negative

-- = Very Negative

EXHIBIT VII-2

SOFTWARE CONCEPT



- This kind of software is difficult to achieve since it calls for a generalized design not oriented to a specific company. Since many software packages are based on a specific initial implementation, it may be difficult or impossible to truly generalize such a package.
- Even if it is not feasible for ISA to market a completely generalized package, it should carefully examine new products picked for marketing to make sure that the optimum tradeoffs are made between generalized and targeted software functions.

APPENDIX A: DATA PROCESSING MANAGEMENT QUESTIONNAIRE

GROUP LIFE/HEALTH INSURANCE QUESTIONNAIRE

DATA PROCESSING MANAGEMENT

Hello, my name is _____. I am with INPUT, a consulting and research firm in Saddle Brook, New Jersey. We would like for your company to take part in a study on automation in group life and health insurance. Neither your name nor your company's name will be identified. We have several questions to ask you that will take about 20 minutes of your time. In return, we will send you a summary of our study at no charge when it is completed. Would you like to take part?

I. How does your group life and health automation differ from other automated functions in your company?

() No difference.

() Minor differences (Describe) _____

() Major differences (Describe) _____

ASK THIS QUESTION IF COMPANY HAS BOTH GROUP LIFE AND HEALTH.

2. In general, how does automation of group life and health functions differ from each other?

() No difference (COMPLETE A SINGLE COPY OF QUESTION 3)

() Minor differences (Describe) _____

() Major differences (Describe) _____

IF THERE ARE DIFFERENCES, COMPLETE TWO COPIES OF QUESTION 3; ONE FOR LIFE AND ONE FOR HEALTH.

3. Please describe the group insurance functions in your company that are now automated (PROMPT AS NECESSARY).
 For each function, what is the source of the automation and your level of satisfaction? (PROMPT FOR REASON).

LIFE ()
 HEALTH ()

Function	Type Of Automation*	Source**	Satis- faction***	Comments
Accounting				
Policy Maintenance				
Eligibility				
Claims History				
Financial Reporting				
Underwriting				
Claims Processing				
Premium Billing				
Claims Disbursement				
Utilization Reporting				
Other				

*=Batch, remote job entry (RJE) on-line non-interactive, on-line interactive

**=In-house development (at interview site), affiliated company, remote processing service vendor, vendor software.

***=5=High; 3=Medium; 1=Low

- 4a. In broad terms, what are you looking for data processing to accomplish for your company that it isn't doing now?

When and how do you see this being accomplished?

- 4b. Is further automation for group insurance planned for the future (new functions and/or enhancements to currently automated functions)? What will be its source?

FUNCTION	TYPE OF AUTOMATION*	SOURCE**	REASON

* Batch, (RJE), on-line non-interactive, on-line interactive.

** In-house development, affiliated firm, RCS vendor, vendor software.

4c. How much are these plans dependent on your company's financial condition?

(1=Not at all; 3=Somewhat; 5-Totally dependent)

Why?

5. What percentage of the time would you say that the initiative for adding or upgrading a major automated function for group insurance comes from the EDP department _____. A user department _____%

What do you think these percentages will be in three years?

EDP _____% User _____%

6. How many computers and terminals do you have now and how many do you expect to have by the end of 1984? (Prompt from list on next page)

What is the reason for the change?

What kind of system software are you using now and what changes are planned by the end of 1985? (Prompt from list on next page) Why?

	1982	1985	REASON FOR CHANGE
Computer Systems:			
Manufacturer			
Model #			
No. of Units			
Terminals			
Manufacturer			
Model #			
No. of Units			
No. of Locations			
System Software			
Operating Systems			
Telecommunications Monitors			
Data Base Mgt. Sys.			

7. What role do you see small self-contained computer systems playing in your group insurance operations?

Turnkey systems based on small computers?

Personal computers?

8. What role do you see computer graphics playing in your company in the future?
(Describe)

- 9a. How many programmers and analysts do you currently employ?

- 9b. How difficult have you found it to recruit and retain programmers and analysts?
(5 = Not difficult, 3 = Moderately difficult, 1 = Very difficult) _____

Why?

- 9c. What is your company's total spending on data processing, broken out by personnel, hardware, and outside processing and software? What sort of changes do you see in 1983, 1984 and 1985? Why?

	1982	1983	1984	1985	REASON FOR CHANGE
In-House Personnel					
In-House Hardware					
Outside Processing					
Vendor Software					
Other					
TOTAL					

10. About how much are the data processing costs to support your group insurance operations? (BREAK OUT FOR BOTH GROUP LIFE AND GROUP HEALTH IF COMPANY HAS BOTH) \$_____

- o What do you expect the amount to be in the future (for as many years as you can project)? Why do you expect these changes?

	1983	1984	1985	REASON
Life				
Health				

11a. Approximately how much of your group insurance software has your company developed in-house? _____%

o Why?

o What language (or languages) are used?

o What do you like best about in-house developed software?

o What do you like least?

11b. How would you rate in-house developed software for group insurance in the following areas:

(1 = Low, 3 = Medium, 5 = High) and why?

	RATING	REASON
Speed of Implementation		
Ease of Implementation		
Meeting User Requirements		
Reliability		
Effort Needed to Convert Prior Systems		
Ease of Maintenance		
Ability to Make Changes Easily		
Ability to Make Changes Quickly		
Amount of Support Needed		
Cost		

11c. How difficult have you found it to develop and maintain in-house software?

(5 = Very difficult, 3 = Moderately difficult, 1 = Not difficult) _____

Why?

Will this become more difficult in the future?

() YES () NO

Why?

12a. Do you now use an outside processing service to handle group insurance needs?

() YES () NO

o If yes:

- Who and for how long?

- How much does it cost?

o If no:

- Have you considered using a processing service?

() YES () NO

- Why?

o If yes:

- For which functions?

- o What processing services are you acquainted with? Where did you get the knowledge?

SERVICE NAME	LEVEL OF KNOWLEDGE	SOURCE OF KNOWLEDGE

- o What do you like best about outside services?

- o What do you like least?

12b. How would you rate outside processing services for group insurance generally in the following areas (1 = Low, 3 = Medium, 5 = High) and why?

	RATING	REASON
Speed of Implementation		
Ease of Implementation		
Meeting User Requirements		
Reliability		
Effort Needed to Convert Prior Systems		
Ease of Maintenance		
Ability to Make Changes Easily		
Ability to Make Changes Quickly		
Amount of Support Needed		
Cost		

12c. Will you be more inclined to use outside services instead of in-house processing in the future?

() YES () NO

o Why?

13a. Does your company now use insurance software obtained from a vendor or another third party source to handle its group insurance business?

() YES () NO

o If yes:

- Who?

- Approximately what portion of your software for group insurance comes from this source?

o If no:

- Have you considered using outside software?

() YES () NO

- Why?

o If yes:

- For which functions?

- o What software packages are you acquainted with? Where did you get the knowledge?

PACKAGE NAME	LEVEL OF KNOWLEDGE	SOURCE OF KNOWLEDGE

- o What do you like best about vendor software?
- o What do you like least?

13b. How would you rate vendor software for group insurance generally in the following areas (1 = Low, 3 = Medium, 5 = High) and why?

	RATING	REASON
Speed of Implementation		
Ease of Implementation		
Meeting User Requirements		
Reliability		
Effort Needed to Convert Prior Systems		
Ease of Maintenance		
Ability to Make Changes Easily		
Ability to Make Changes Quickly		
Amount of Support Needed		
Cost		

13c. Will you be more inclined to use vendor-supplied software instead of in-house developed software in the future to handle its group insurance business?

() YES () NO

o Why?

14a. If your company were to select an outside vendor to provide a data processing service, please indicate the extent to which each of the following factors would be of high, medium or low importance to you in reaching the decision?

<u>FACTOR</u>	<u>IMPORTANCE OF FACTOR</u>				
	<u>HIGH</u>		<u>MEDIUM</u>		<u>LOW</u>
	5	4	3	2	1
General reputation of vendor	_____	_____	_____	_____	_____
References from current customers	_____	_____	_____	_____	_____
Number of current customers	_____	_____	_____	_____	_____
Time and effort required to implement	_____	_____	_____	_____	_____
Amount of support/training offered	_____	_____	_____	_____	_____
Cost	_____	_____	_____	_____	_____
System reliability (errors, downtime)	_____	_____	_____	_____	_____
System features offered	_____	_____	_____	_____	_____
Flexibility (tailoring to your needs)	_____	_____	_____	_____	_____
Extent of user control possible	_____	_____	_____	_____	_____
Transaction turnaround time	_____	_____	_____	_____	_____
Other	_____	_____	_____	_____	_____

15a. Who makes the final decision in your company on whether to purchase outside data processing services or products?

15b. Who makes the recommendation on which the decision is based?

16. Currently, what are the most significant problems in the insurance industry and what can data processing do to alleviate them?

17. What trends do you see occurring in insurance data processing over the next five years?

- o How do you see these trends affecting your company?

18. We would also like to interview a person responsible for managing group insurance administrative operations who is knowledgeable in data processing issues from a users standpoint. Could you suggest a name in the group life and group health area?

GROUP LIFE

Name

Title

Telephone

GROUP HEALTH

Name

Title

Telephone

APPENDIX B: OPERATIONS MANAGEMENT QUESTIONNAIRE

GROUP LIFE/HEALTH INSURANCE QUESTIONNAIRE

OPERATIONS MANAGEMENT

LIFE ()

HEALTH ()

Hello, my name is _____. I am with INPUT, a consulting and research firm in Saddle Brook, New Jersey. We would like for your company to take part in a study on automation in group life and health insurance. We are interviewing people responsible for managing group insurance administrative operations who are knowledgeable in data processing needs from a non-technical standpoint. Neither your name nor your company's name will be identified. We have several questions to ask you that will take about 20 minutes of your time. In return, we will send you a summary of our study at no charge when it is completed. Would you like to take part?

ASK THIS QUESTION IF COMPANY HAS BOTH GROUP LIFE AND HEALTH.

1. In general, how does automation of group life and health functions differ from each other?

() No difference (COMPLETE A SINGLE COPY OF QUESTION 2)

() Minor differences (Describe) _____

() Major differences (Describe) _____

IF THERE ARE DIFFERENCES, COMPLETE TWO COPIES OF QUESTION 2; ONE FOR LIFE AND ONE FOR HEALTH.

2. Please describe the group insurance functions in your company that are now automated. (PROMPT AS NECESSARY) For each function, what is the source of the automation and your level of satisfaction? (PROMPT FOR REASON).

LIFE ()
HEALTH ()

Function	Type Of Automation*	Source**	Satisfaction***	Comments
Accounting				
Policy Maintenance				
Eligibility				
Claims History				
Financial Reporting				
Underwriting				
Claims Processing				
Premium Billing				
Claims Disbursement				
Utilization Reporting				
Other				

*=Batch, remote job entry (RJE) on-line non-interactive, on-line interactive

**=In-house development (at interview site), affiliated company, remote processing service vendor, vendor software.

- 3a. In broad terms, what are you looking for data processing to accomplish for your company that it isn't doing now?

When and how do you see this being accomplished?

- 3b. Is further automation for group insurance planned for the future (new functions and/or enhancements to currently automated functions)? What will be its source?

FUNCTION	TYPE OF AUTOMATION*	SOURCE**	REASON

* Batch, (RJE), on-line non-interactive, on-line interactive.

** In-house development, affiliated firm, RCS vendor, vendor software.

- 3c. How much are these plans dependent on your company's financial condition?

(1=Not at all; 3=Somewhat; 5-Totally dependent)

Why?

4. What percentage of the time would you say that the initiative for adding or upgrading a major automated function for group insurance comes from the EDP department ____%. From your department ____%

What do you think these percentages will be in three years?

EDP ____% User ____%

5. What role do you see small self-contained computer systems playing in your group insurance operations?

Turnkey systems based on small computers?

Personal computers?

6. What role do you see computer graphics playing in your company in the future?
(Describe)

7. About how much are the data processing costs to support your group insurance operations? (BREAK OUT FOR BOTH GROUP LIFE AND GROUP HEALTH IF COMPANY HAS BOTH) \$

- o What do you expect the amount to be in the future (for as many years as you can project)? Why do you expect these changes?

	1983	1984	1985	REASON
Life				
Health				

8. Approximately how much of your group insurance software has your company developed in-house? _____%

o What do you like best about in-house developed software?

o What do you like least?

9. How would you rate in-house developed software for group insurance in the following areas:
(1 = Low, 3 = Medium, 5 = High) and why?

	RATING	REASON
Speed of Implementation		
Ease of Implementation		
Meeting User Requirements		
Reliability		
Effort Needed to Convert Prior Systems		
Ease of Maintenance		
Ability to Make Changes Easily		
Ability to Make Changes Quickly		
Amount of Support Needed		
Cost		

10. Do you now use an outside processing service to handle group insurance needs?

() YES () NO

o If yes:

- Who and for how long?

- How much does it cost?

o If no:

- Have you considered using a processing service?
() YES () NO

- Why?

o If yes:

- For which functions?

o What processing services are you acquainted with? Where did you get the knowledge?

SERVICE NAME	LEVEL OF KNOWLEDGE	SOURCE OF KNOWLEDGE

o What do you like best about outside services?

- o What do you like least?

- 11a. How would you rate outside processing services for group insurance generally in the following areas (1 = Low, 3 = Medium, 5 = High) and why?

	RATING	REASON
Speed of Implementation		
Ease of Implementation		
Meeting User Requirements		
Reliability		
Effort Needed to Convert Prior Systems		
Ease of Maintenance		
Ability to Make Changes Easily		
Ability to Make Changes Quickly		
Amount of Support Needed		
Cost		

- 11b. Will you be more inclined to use outside services instead of in-house processing in the future?

() YES () NO

- o Why?

12a. Does your company now use insurance software obtained from a vendor or another third party source to handle its group insurance business?

() YES () NO

o If yes:

- Who?

- Approximately what portion of your software comes from this source?

o If no:

- Have you considered using outside software?

() YES () NO

- Why?

- o What software packages are you acquainted with? Where did you get the knowledge?

PACKAGE NAME	LEVEL OF KNOWLEDGE	SOURCE OF KNOWLEDGE

- o What do you like best about vendor software?

- o What do you like least?

12b. How would you rate vendor software for group insurance generally in the following areas (1 = Low, 3 = Medium, 5 = High) and why?

	RATING	REASON
Speed of Implementation		
Ease of Implementation		
Meeting User Requirements		
Reliability		
Effort Needed to Convert Prior Systems		
Ease of Maintenance		
Ability to Make Changes Easily		
Ability to Make Changes Quickly		
Amount of Support Needed		
Cost		

12c. Will you be more inclined to use vendor-supplied software instead of in-house developed software in the future to handle its group insurance business?
() YES () NO

o Why?

13. If your company were to select an outside vendor to provide a data processing service, please indicate the extent to which each of the following factors would be of high, medium or low importance to you in reaching the decision?

<u>FACTOR</u>	<u>IMPORTANCE OF FACTOR</u>				
	<u>HIGH</u>		<u>MEDIUM</u>		<u>LOW</u>
	5	4	3	2	1
General reputation of vendor	_____	_____	_____	_____	_____
References from current customers	_____	_____	_____	_____	_____
Number of current customers	_____	_____	_____	_____	_____
Time and effort required to implement	_____	_____	_____	_____	_____
Amount of support/training offered	_____	_____	_____	_____	_____
Cost	_____	_____	_____	_____	_____
System reliability (errors, downtime)	_____	_____	_____	_____	_____
System features offered	_____	_____	_____	_____	_____
Flexibility (tailoring to your needs)	_____	_____	_____	_____	_____
Extent of user control possible	_____	_____	_____	_____	_____
Transaction turnaround time	_____	_____	_____	_____	_____
Other	_____	_____	_____	_____	_____

- 14a. Who makes the final decision in your company on whether to purchase outside data processing services or products?

- 14b. Who makes the recommendation on which the decision is based?

15. How large is your Third Party Administration (TPA) and Administrative Service Only (ASO) business in terms of individual policyholders serviced and claims volume? Policy holder _____ Annual claims _____

How much do you expect this to increase in the future?

Does your present automated system do a good job in handling TPA and ASO work?

() YES () NO

If no, why not?

- 16a. Do you contract out any of your group administration function or claims processing function?

Group administration? () YES () NO

Claims processing? () YES () NO

Other (describe) () YES () NO

- 16b. If YES: How long have you done so and what has been your experience?

16c. If NO: Have you considered contracting out:

Group Administration? () YES () NO

Why?

Claims Processing? () YES () NO

Why?

17. Currently, what are the most significant problems in the insurance industry and what can data processing do to alleviate them?

18. What trends do you see occurring in insurance data processing over the next five years?

- o How do you see these trends affecting your company?

19. Can you give me an idea of the approximate size of your group insurance business in terms of annual premiums, number of individual policy holders and the annual number of claims processed?

ASK FOR BOTH GROUP HEALTH AND LIFE, IF APPROPRIATE.

	<u>HEALTH</u>	<u>LIFE</u>
Premiums (\$ million)	<hr/>	<hr/>
Individual policy holders	<hr/>	<hr/>
Annual number of claims* processed	<hr/>	<hr/>

* How do you define a "claim" for processing purposes?

20. What proportion of your business is MET?

Health _____ %

Life _____ %

21. What areas of group insurance do you expect your company to be either expanding into or decreasing involvement with in the next five years?

Expanding into: _____

Decreasing involvement _____

APPENDIX C: PERCENT OF COMPANIES WITH LOW OR
MEDIUM-LOW SATISFACTION WITH GROUP INSURANCE
AUTOMATION, BY FUNCTIONAL AREA AND COMPANY SIZE

APPENDIX C

PERCENT OF COMPANIES WITH LOW OR MEDIUM-LOW SATISFACTION WITH GROUP INSURANCE AUTOMATION, BY FUNCTIONAL AREA AND COMPANY SIZE (Group Premiums, \$ millions)

APPLICATION	\$0 - 9.9		\$10 - 24.9		\$25 - 49.9		\$50 - 99.9		\$100 +		TOTAL	
	EDP	USER	EDP	USER	EDP	USER	EDP	USER	EDP	USER	EDP	USER
Accounting	42%	50%	15%	22%	16%	25%	25%	33%	11%	0%	22%	26%
Policy Maintenance	33	25	46	22	15	33	18	40	25	9	27	26
Eligibility	50	25	29	17	15	22	27	0	25	0	29	13
Claims History	43	40	46	28	15	33	23	33	22	0	30	28
Final Reporting	33	50	33	12	15	11	0	50	25	10	21	27
Underwriting	20	33	25	6	31	11	11	0	22	11	22	12
Claims Processing	0	0	50	28	23	22	17	22	22	22	22	19
Premium Billing	17	25	42	28	9	33	0	22	33	22	20	26
Claims Disbursement	20	25	36	22	19	22	17	22	33	9	25	20
Utilization Reporting	20	33	38	13	33	33	11	20	25	9	25	22
Average	29	31	36	20	19	25	15	25	24	9	24	22

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